Evaluation Report

Operations Evaluation (EV)

Evaluation of EIB financing through individual loans under the Lomé IV Convention

Synthesis Report

European Investment Bank

EIB financing through individual loans under the Lomé IV Convention

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February 2006

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NOTICE

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GLOSSARY

ACP	African, Caribbean, Pacific (countries)
COP	EIB Corporate Operational Plan
EDF	European Development Fund
EDFIs	European Development Finance Institutions
EIB	European Investment Bank
ERR	Economic Rate of Return
EV	Operations Evaluation of the EIB
EIA	Environmental Impact Assessment
FDI	Foreign Direct investment
FIRR	Financial Internal Rate of Return
GDP	Gross Domestic Product
IF	Investment Facility (Cotonou Agreement)
IFI	International Financial Institutions
MDBs	Multi-lateral Development Banks
NIP	National Indicative Programme
OJEU	Official Journal of the EU
OpsB	EIB Lending Directorate outside the EU
OR	(EIB) Own Resources
PCR	Project Completion Report
PJ	EIB Projects Directorate
RC	Risk Capital (EDF resources)
RM	EIB Risk Management Directorate
SMEs	Small to Medium-sized Enterprises
TA	Technical Assistance

Evaluation

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

This evaluation covers EIB financing of individual loans in Africa, Caribbean, Pacific (ACP) countries under the Lomé IV convention during the period 1990 – 2003. A related, but separate report dealing with EIB global loan financing with own resources and risk capital in ACP countries is under preparation for publication in 2006.

During the period covered by this evaluation, the Bank financed 410 projects through 536 lending operations for a total of EUR 4,567 m of loan signatures. About 53% of the loans signed were provided from the EIB's own resources and 47% from risk capital resources. With 77% of total loan signatures, Africa was the main recipient of EIB funds, followed by the Caribbean (17%) and the Pacific (6%). Almost one third of the funds were provided through global loans (32%) to financial intermediaries, while the other two thirds were provided through individual loans with a fairly even distribution between the key sectors of infrastructure (20%), industry (17%), and energy (16%).

For this evaluation, EV selected a sample of 11 individual projects located in Africa (9), Caribbean (1) and Pacific (1). In addition, the evaluation also took into consideration the results of recently completed "Project Completion Reports" for 29 individual projects in ACP.

Relevance

All the projects evaluated were relevant, as their objectives were consistent with those of the Lomé IV Convention, as well as with the needs and requirements of the beneficiaries and other parties concerned. They support pillar one of the EIB's value added concept that requires conformity of the lending operations with the Bank's and EU policies and strategies.

All projects concern eligible sectors that were included in the respective National Indicative Programmes (NIPs) of the countries concerned.

However, besides a set of more general developmental objectives, the Lomé IV Convention and the NIPs do not provide specific and operational objectives to guide the EIB in selecting lending operations. This "hands-off" approach to detailed programming leaves the Bank with a high degree of flexibility when selecting projects to meet quantitative lending targets. However, the large range of value added provided by the EIB – in particular non-financial value added – indicates that a more focused approach to project selection should result in the delivery of higher value added.

Under the new Cotonou Agreement, regular reporting should be carried out on sector and geographical distribution of the projects financed, both on the objectives and on the results achieved. This would also provide useful information when discussing these issues in the appropriate forum: the Investment Facility Committee.

Performance of the sample of projects evaluated

The performance of the projects has been evaluated against the internationally accepted evaluation criteria of: effectiveness (extent to which objectives are achieved), efficiency (comparison between costs and benefits) and sustainability (likelihood of continued long-term benefits and resilience to risk over project life). This assessment of the quality of the projects relates to the second value added pillar of the EIB.

Based on a 4-level rating scale, seven projects received the highest possible overall rating of **good**, two projects were rated **satisfactory** and two projects **unsatisfactory.** None was rated **poor**.

The two projects rated unsatisfactory were a water project and an agro-processing project. Besides experiencing substantial cost overruns during implementation, the water project is not sustainable because tariff increases and institutional reforms (privatisation) that were anticipated at appraisal did not materialise. The financial profitability of the agro-processing project has been seriously affected by changing world market prices and by fluctuating exchange rates, causing the project not to appear economically viable.

The difficulties observed in the projects' performance were essentially related to management weakness. In addition, most public sector projects were implemented with long delays that were often caused by procurement related problems.

The Bank's value added to the projects financed

Under the Lomé IV convention, the already low ("AAA" based) EIB interest rates are either subsidised (own resources loans to ACP borrowers) or administratively fixed at a relatively low level (risk capital). The *financial value added* provided by the Bank has therefore generally been substantial. Alternative sources of funding with similar maturities and at comparative costs have in most cases not been available, and only in the case of fixed rate contracts denominated in foreign exchange did alternative sources of funding (e.g. local currency denominated loans at variable rates) become more attractive as interest rate levels generally declined over time and local currencies depreciated.

An important factor is the substantial *non-financial value added* that the EIB was able to deliver to some of the projects. In particular public sector projects with weak promoters benefited substantially from the Bank's early involvement in project preparation and during implementation (e.g. competitive bidding for contracts). It is also noteworthy that a water project that was rated overall "unsatisfactory" was so largely because key measures identified ex-ante at appraisal (tariff increased, privatisation) and incorporated as covenants into the Banks finance contract were not implemented, resulting in the poor performance of the project. This case highlights the importance of a proper monitoring and follow-up by the Bank of project related covenants in the finance contracts that may relate to factors beyond the control of the promoters and need to be taken up with the appropriate government authorities.

EIB management of the project cycle

The increasingly flexible approach taken to programming under the Lomé convention, and carried on into the Cotonou agreement, makes it easier for the Bank to identify and select appropriate projects for EIB funding. However, such an approach may not result in a maximisation of the value added the Bank could provide.

Because of the relatively lean, streamlined appraisal and approval procedures of the Bank, identified projects are usually quickly appraised and lending operations approved by the EIB Board. An area for improvement is the general lack of benchmarking exercises for the financial and economic internal rates of return used when accepting or rejecting appraised projects.

As mentioned above, a more detailed monitoring of project implementation and operation and a more forceful follow-up of identified constraints seems at times to be necessary in support of EIB financed projects. This should involve the cancellation of approved loans or the request for immediate repayment (default) if agreed covenants required to ensure the successful implementation and operation of a project have been violated. Proper monitoring of agreed covenants should lead to effective decisions when they are not fulfilled.

TABLE OF RECOMMENDATIONS

	EV Recommendation	Services' Comments
1.	The Bank, in close co-operation with other parties concerned, should establish and report on detailed lending priorities related to geographical and sector allocations, particularly in the public sector, that aim at maximising the value added the EIB could provide. This may involve regular reporting to the IF Committee. (Sections 2.2 and 6.1)	The Bank keeps in close and continuous contact both with the ACP authorities in the States concerned and with the European Commission regarding the preparation and the implementation of its lending programmes (which are reflected in the relevant Country Strategy papers to which the Bank contributes at programming stage). These inputs form some of the building blocks for the annual business plan, which, bearing in mind that the IF has the remit to operate in all ACP regions, defines strategic, geographical and sectorial orientations for the Investment Facility, in close consultation with the IF Committee. The Bank is further aiming to improve portfolio coherence through regular reporting to the IF Committee on the implementation of the business plan and on results achieved, through the annual activity reports and portfolio reports, which is in line with EV recommendations. While expected to demonstrate its contribution to the development objectives of the Cotonou Agreement, the IF has been designed as a revolving mechanism that over time must generate reflows for reinvestment. This objective of financial sustainability, combined with the private sector and market related orientation of the IF nevertheless require that the Bank maintains sufficient flexibility in the implementation of its mandate and of the business plan, and reacts in an efficient and prompt way to market conditions and opportunities.
2	Co-operation with other co-financiers in particular other MDBs needs to be strengthened to ensure a more co-ordinated approach towards the identification, formulation, and follow-up of project related and other measures that need to be taken to support the successful implementation and operation of projects (e.g. environmental impact assessments, monitoring systems, market or institutional reforms). (Section 3.1.1.4)	Co-operation on projects with co-financiers, which leads to more efficient targeting and use of development resources, is clearly to be encouraged. It is particularly important for a more co-ordinated approach towards the identification, formulation and appraisal of projects. The division of responsibility in relation to follow-up and monitoring between MDBs should be clearly defined at appraisal stage. In general, this is already the approach adopted. In a number of sectors (e.g. water) it is one of the main reasons for the good performance of some of the projects evaluated. Successful implementation and operation of projects depends not only on the Bank's efforts but also on the acceptance of this approach in practice from all co-financiers, as they have their own particular agendas and constraints. To overcome these difficulties the Bank will continue to strengthen the cooperation with other MDBs.

	EV Recommendation	Services' Comments
3	Appraisal fees should be regularly considered, both for private and public sector operations, amongst others, to allow for a better EIB cost recovery. (Sections 2.3 and 5.2)	Since inception of the Cotonou Agreement, appraisal fees have been systematically introduced for private sector operations on both Investment Facility and the Bank's own resources. So far, it has been Bank policy not to apply any appraisal fees to public sector borrowers, a policy that is also followed by a majority of other DFIs. Appraisal fees may nevertheless be charged to commercially run public enterprises. Generally, appraisal fees do not discourage promoters who perceive an advantage in having Bank participation in a project. But, while they encourage accountability within the promoter organisation, their implementation can become complex when the Bank is involved at a very early stage in the project cycle. Hence they are best handled on a case-by-case basis.
4	In order to strengthen the project implementation and management capacities in particular of public sector promoters, institutional issues need to be analysed more carefully at appraisal, and appropriate measures (project implementation units, technical assistance, training etc.) be included as loan conditions. This may require the provision of adequate resources to strengthen the Bank's monitoring capacities, e.g. through Technical Assistance. (Sections 3.1.1.2, 3.1.1.3, 3.1.1.5, 3.1.2 and 6.2)	The principle has been agreed with the Commission that, under Cotonou II, the Bank should have funds readily available for the selective use of Technical Assistance both for direct projects as well as for financial sector operations. In the meantime, the Bank's services will reinforce the application of measures to strengthen organisational weakness especially in relation to project implementation capacity. While institutional issues are analysed in detail at appraisal stage (systematically in some sectors, e.g. water), loan conditions relating to institutional and regulation reform depend upon the case in question, bearing in mind that putting in place the required technical assistance and adequately monitoring these issues is often a staff intensive exercise, and for this the hiring of additional staff is in progress.
5	Project related covenants have to be carefully monitored and appropriate decisions taken, considering also observations made after loan signature. (e.g. creation of special funds, recruitment of TA, environmental measures). (Sections 3.1.1.4, 3.2.1, 5.3 and 6.2)	Far fewer subsidy-related special funds will be created under Cotonou, but the point is well taken. Over the last two years, new resources have progressively been allocated to the area of project monitoring (there are currently two Monitoring Officers per operational division), while progress has been made in the field of improving the electronic tracking of contract compliance. This will enable the Bank to better enforce promoters' contractual obligations.

	EV Recommendation	Services' Comments
6	Some covenants included in the Finance Contracts go beyond the control of the borrowers and need to be implemented by Government institutions (e.g. tariff increases, institutional reforms, ...). The Bank, together with the concerned bodies, should take measures in order to be more effective in the setting, follow-up and control of those conditions. (Sections 3.1.2, 3.2.1, 3.3, 5.3 and 6.2)	The Bank's services agree that covenants should be set with care, and appropriate structures should be put in place to ensure that covenants can be and are actually acted upon. The Bank has most leverage to oblige sovereign entities to comply at the outset when it still has the choice of whether or not to fund a project. Once projects are financed, the Bank will actively work with the EU Commission to address issues of compliance at the national level.
7	The appraisal reports should more clearly explain and justify the methodologies used in the financial and economic appraisal of the project. If a cost benefit framework is used, the project specific bench-marks used to accept/reject a project based on the internal financial and economic rates of return of the project should be clearly defined and mentioned. (Section 5.2)	The Bank's services will more clearly explain and justify the financial and economic methodologies used through the appraisal report.. The appraisal report should explicitly state the assumptions made. In line with practice followed by several other MDBs (World Bank, IADB, AsDB,..) working in the same area and often in cooperation with the EIB, the reference ERR level for projects outside the EU is 10%, with the results being interpreted according to the sector and the extent to which economic externalities have been captured. However, for a number of sectors it is not possible to quantify the economic returns and other methodologies must be used. Besides profitability, there are also other factors to be taken into account for the opinion for financing.
8	For projects in protected markets that are subject to market reforms, the likely impact of such reforms to the financial performance of the project need to be analysed in detail at appraisal, the risks to the financial sustainability of the projects be clearly indicated, and the results of the analysis be incorporated in the economic appraisal of the project. (Sections 3.1.1.3, 3.1.2, 3.3 and 6.2)	The Bank's services agree that this should be part of the sensitivity analysis of the project and assessed when identifying the major risks and their possible mitigation. The impact of market reforms are analysed at appraisal and are incorporated in the various scenarios used through risk assessment matrices, which consider market reform issues, where the Bank takes project risk. .

1 INTRODUCTION

1.1 The approach followed in the evaluation

This report presents the findings of an evaluation of EIB financing in the ACP (African, Caribbean and Pacific) countries, and covers more specifically the provision of financing:

- through individual loans (a separate evaluation will look at the financing through Global Loans)
- under the Lomé IV Convention, referring to the period 1990-2003.
- both through EIB own resources and risk capital from EDF resources.

In line with EV objectives, the evaluation is mainly based on an assessment of a sample of operations. The performance of each project selected for evaluation has been evaluated using the internationally accepted evaluation criteria (see Annex 3). The projects evaluated had at least two years of operational results. The main basis to evaluate the operations is the comparison of the ex-post results with the expectations and objectives at appraisal. Similarly, the report addresses the relevance of the EIB policies and strategies, as well as the impact of the EIB financial products. Finally the performance of the EIB in the management of those operations is analysed.

More than 400 individual operations were financed under the Lomé IV Convention. Although a detailed review could only be done on a limited sample, EV made the selection considering a range of characteristics of the projects financed.

The 11 individual projects selected:

- represent the main regions: three in "West Africa and Sahel", two in "Central and East Africa", four in "Southern Africa and Indian Ocean", two in "Caribbean and Pacific" region (altogether thirteen countries concerned[1]);
- make use of diverse financial products: two operations financed with own resources only, five combining own resources and risk capital and four with risk capital only; and
- are spread over a variety of sectors: transport, energy, telecommunications, water supply, industry and agro-processing.

In line with the new objectives proposed by EV, the results of a review of the most recent "Project Completion Reports" (29 PCRs were analysed) have been incorporated in this evaluation. This analysis has allowed for the addition of information available on the most recent operations completed (these PCRs were produced when information on the first year of operational results was available).

[1] One energy project concerns three countries

The evaluation, which was carried out by the EV team, has been developed in three phases:

- A general overview of EIB financing through individual loans under the Lomé IV Convention in the period 1990-2003, the operational framework set up by the EIB to develop this type of financing, and a brief analysis of the economic background of the ACP countries; main results are presented in Chapter 2.

- Individual evaluations of the 11 projects selected (see also map in Annex 2), and a review of the 29 PCR completed in 2003 to early 2005. As part of the individual evaluations, the promoter and the installations were visited, as well as other relevant parties.

- A synthesis report, presenting the main findings of the previous phases and drawing conclusions and recommendations.

Meetings were held with Bank's operational staff responsible for the projects and their support in the organisation of this evaluation has been highly appreciated.

1.2 Economic background of the ACP countries

Because external funding continues to be indispensable for the generation of sustainable economic growth in most ACP countries, this section focuses on the macro-economic performance of the ACP countries in recent years (1998 to 2004) and on the volume of external financial flows, with particular reference to the importance of EIB finance in the ACP countries[2].

Although **real GDP growth rates** in ACP countries have traditionally been below average world economic growth rates, in recent years most ACP countries have experienced sufficient growth rates to allow for a positive growth in per capita income, allowing for a general improvement of the standard of living of the population.

Since 1998 real GDP growth in **Sub-Saharan Africa** has been modest, with 2.8% a year on average (though 5% in 2004). However, this positive trend has been sufficient to result in an increase in the average annual *per capita* GDP of 0.85% per year and is in contrast to the negative GDP per capita growth rates of the 1990s.

The economic performance of the open and vulnerable economies of the **Caribbean** is highly dependent on external factors such as world commodity prices - mainly sugar and bananas - and on economic growth in the US and in Europe, which strongly influences tourist arrivals from these two, most important, tourism markets. On average, real annual GDP growth in this region has amounted to 1.5% since the year 2000.

Mainly due to a strengthening of international commodity prices and rising tourist revenues, real GDP growth in the **Pacific** has turned from negative rates during the late 1990s to positive

[2] based on an internal paper "Study of financial flows to Sub-Saharan Africa, Caribbean and Pacific (ACP)" prepared by the Operations Evaluation division of the EIB in June 2005.

rates in more recent years (e.g. +2.1% in 2003). However, due to the relatively fast population growth of about 2.7% per year, this has not been sufficient to turn the long-term trend of declining per capita incomes into a positive performance.

Overall, the economic performance of the ACP countries has improved in recent years as compared to the 1980s and early 1990s, but has shown substantial differences on a regional basis as well as on a country-by-country basis. With mostly small domestic markets that are not well diversified, the economic performance of ACP countries is strongly influenced by external factors that are beyond their control.

GDP growth in the ACP countries is heavily dependent on **external financial flows.** These are used not only to fund vital public and private sector investments, but also to boost local consumption. Conventionally, one distinguishes between four different types of external financial flows:

- financial inflows from private creditors
- FDI inflows
- remittances
- financial inflows from official/public creditors such as the EIB.

Between 1997 and 2003, developing countries as a whole received total average annual external financial inflow of about USD 470 billion. Of this, only about USD 38.6 bn, or 8.2%, went to ACP countries.

Of these total financial flows, net **private flows** constitute the most significant element and averages about USD 195 bn per year between 1997 and 2003 (42% of the total inflows). However, only about 7% of net private flows, or USD 13 bn per year, went to ACP countries. This trend reflects the limited size of the ACP economies but also the low confidence of private financing institutions in the ACP economies as a whole.

In global terms, **Foreign Direct Investment** (FDI) constitutes the second largest financial flow, averaging about USD 164 bn per year to all developing countries during 1997 to 2003. The main recipients of FDI have been Latin America and East Asia, while ACP countries on average only received about USD 8.7 bn per year, or 5.3% of the total flow.

In some developing countries, workers' **remittances** constitute a major source of capital for private households. Compared to the other types of external financing, this flow is less volatile and is the only flow that has been constantly growing in recent years. Remittances averaged about USD 71 bn a year between 1997 and 2003. While only about 5% of this global stream went to ACP countries (average USD 3.9 bn a year during 1997 to 2003), in some ACP countries (e.g. Pacific region) it is a very important source of funding for private sector investments as well as for consumption.

Financial flows from **public/official creditors** are an important source of funding in ACP countries but are less important in other developing regions. Between 1997 and 2003 total official flows amounted to, on average, about USD 40 bn per year with about USD 13 bn going to ACP countries.

Taking a closer look at the **financial flows that went to ACP countries** during recent years, it is important to note that during 1997 to 2003 financial flows from official creditors (incl. EIB) and financial flows from private creditors have been the two most important sources of external finance, constituting an average annual inflow of about USD 13 bn each. FDI (about USD 8.7 bn) and remittances (about USD 3.9 bn) play a much less important role in the total external flow of USD 38.6 bn a year.

An important source of financial flows from official creditors to ACP countries has been **Multilateral Development Banks** (MDBs) such as the IBRD, EIB or regional development banks, with national financial institutions playing a less significant role.

Among the three geographical ACP zones, *Sub-Saharan Africa* has been the main recipient: the public sector receives on average USD 2.8 bn a year from MDBs. Of this, about 60% was provided by the IBRD (World Bank), with the **EIB** being the second most important MDB in the region, providing almost 15% or USD 415 million per annum of the total. Regarding private sector financing in Sub-Saharan Africa, the IBRD (IFC) has provided about USD 350 million per year a compared to a funding volume of on average about USD 200 million provided by the **EIB** to this target group.

The role of the EIB as a major source of external funding is less prominent in the other two regions of the ACP. In the *Caribbean,* MDBs provide about USD 450 million per annum, while EIB annual disbursements to the region amount to about USD 30 million (6.6% of total). In the *Pacific* region MDBs provide on average about USD 75 million per year while EIB lending activities are marginal and disbursements never exceed USD 5 million per year.

Overall, it can be concluded that, in recent years, within the financial inflows from official creditors, the EIB has played a major role in the funding of public and private sector investments in Sub-Saharan Africa, while it only plays a marginal role in the Caribbean and Pacific regions.

It is against this background that the EIB financing of individual projects in ACP countries under the Lomé IV Convention has been analysed.

2 THE EIB'S OBJECTIVES AND LENDING IN ACP: RELEVANCE

2.1 The Lomé IV Convention

The Lomé IV Convention is one of a series of cooperation agreements the European Union has concluded since the early 1960's that have governed the EIB's lending activities outside the European Union. It concerns EIB lending activities in ACP, and Annex 1 provides a very detailed analysis of the strategies and policies followed by the Bank under the Lomé IV Convention, and also provides information concerning earlier conventions.

The Lomé IV Convention was the first convention to cover a 10-year period with two financial protocols - A and B - covering 5 years each. In total, the Bank received a mandate to provide up to EUR 4,983 million of funds to the ACP countries. Of these, EUR 2,858 million came from the Bank's own resources and EUR 2,125 from risk capital (EDF) resources. At the same time, the European Commission had an amount of EUR 21.6 bn available for grants.

2.2 EIB objectives

In accordance with the strategies and policies included in the Lomé IV Convention, the operational objectives for EIB lending in ACP not only take account of the EU development priorities, but also reflect market conditions as well as the priorities expressed by the governments, project promoters and other interested parties in the countries concerned.

Within the global lending ceilings set by each financial protocol of the Lomé IV Convention, National Indicative Programmes (NIPs) were agreed between the European Commission and the ACP countries during a formal programming exercise in which the EIB was involved. Over time, the trend has been towards a less rigid programming exercise to allow for a more flexible utilisation of total fund provided.

Under Lomé IV A, the EIB systematically participated in the formal dialogue between the European Commission and the authorities of the individual ACP countries. This included formal programming missions to draft NIPs that would include detailed lists of priority sectors[3] and sometimes projects the EIB should fund under the financial protocol, indicating amounts and the type of funds (own resources or risk capital) to be provided.

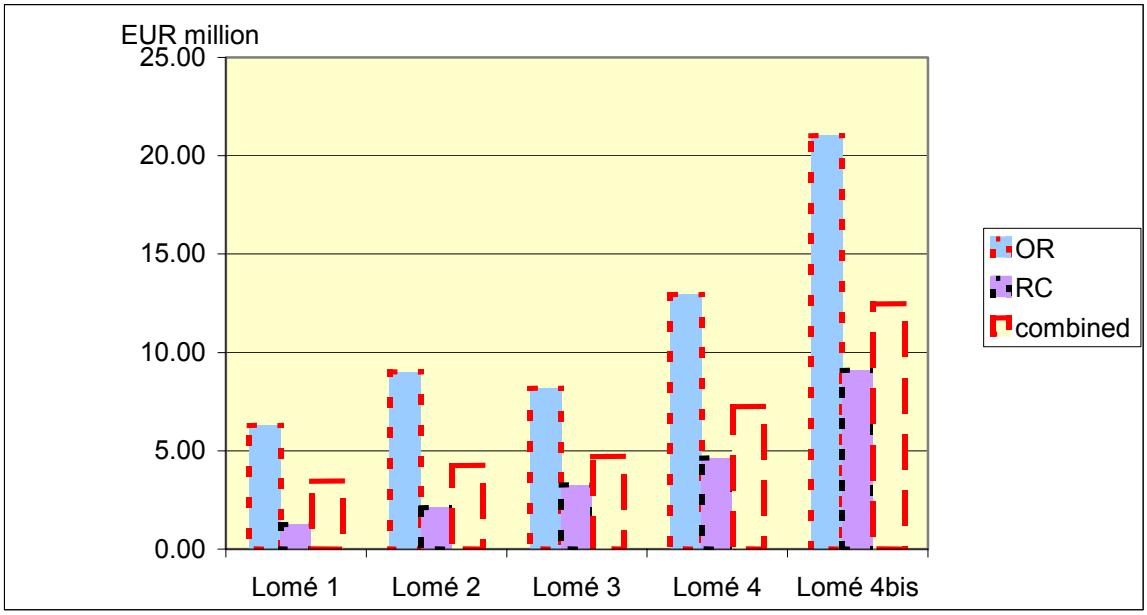
Under Lomé IV B, the programming exercise was much less rigid, with less formal and detailed involvement of the EIB. For example, in the final NIPs for most countries, only indicative global amounts to be made available by the EIB were usually mentioned, without determining individual amounts to be utilised in specific sectors or for individual projects, and without specifying the type of finance to be made available by the Bank. Internal guidelines prepared at the time indicated country eligibility for own resources lending (versus risk capital finance) that helped the selection of the best financial product for a specific project.

[3] The following sectors have been explicitly mentioned in the text of the Lomé Convention (Art. 236) as priority areas for EIB lending operations: industry, agro-industry, tourism, mining, energy, transport and telecommunication.

This more flexible approach has allowed the Bank to adapt rapidly to changing lending environments and to reflect a country's needs. Therefore, within given country targets, the Bank was relatively free to identify investment projects and programmes that meet the Banks general project criteria,[4] as well as the development objectives of the convention. This higher degree of flexibility made it easier to achieve general lending targets as established in the convention.

However, with this approach there was also a risk that objectives that would be more difficult to achieve (e.g. promote private sector development in less developed countries) were supported less than others (e.g. finance basic public sector infrastructure). It could also result in fewer and larger lending operations in order to gain economies of scale. This trend, which might not be politically desirable, is documented in the following graph.

Average size of EIB loans under Lomé Conventions[5]



The graph shows that the average loan size for both, EIB loans from own resources (OR) and from risk capital (RC), have increased with each convention and financial protocol. While under Lomé I the average EIB loan amounted to about EUR 3.3 million, in the second protocol of the Lomé IV Convention (Lomé IV B) the average loan size had increased to EUR 12.1 million, and to EUR 21 million for loans from EIB own resources.

[4] In general, projects to be funded by the EIB should be financially profitable and sustainable, technically feasible, economically viable, socially desirable and environmentally sound.

[5] Given the difficulty to estimate an average inflation rate for these countries over the almost 30 years covered by the mandates, this chart is based on nominal values. Nevertheless, for Lomé IV and Lomé IVbis there is a clear trend towards larger loan amounts.

It should be noted that a further relaxation of the programming exercise, by for example no longer setting country targets but only overall lending targets (as is envisaged under the Cotonou Agreement), bears the risk of a further concentration of EIB lending activities in relatively easy lending environments (e.g. more advanced "bankable" countries with a good absorptive capacity), as well as in relatively simple and less complex projects. This might not maximise the potential developmental impact or "value-added" EIB financing may have in ACP countries and may, therefore, politically not be desirable. However, under Cotonou the Bank is requested by EU Member States to maintain the real value of the Investment Facility as a revolving fund.

Another important feature of EIB loan operations under Lomé IV is the fact that final interest rates charged to the borrowers were administratively determined and are not necessarily market rates.

Loans from own resources bear an interest rate of at least 3% but not more than 6% - an adjustable subsidy of up to 4% is available from the grant element of the financial protocols (EDF funds) to pay for the subsidy[6].

Loans from risk capital have to bear an interest rate of below 3%. Concerning equity investments from risk capital, the EIB is allowed to ask for a performance related remuneration that also considers risks and other commercial considerations.

This introduction of market distortions, which have been carried over in a modified way into the Cotonou Agreement,[7] has been subject to extensive discussions. While interest subsidies may provide investors with an incentive to commit own funds that they would otherwise be more reluctant to commit, they also undermine prospects for long-term development by promoting investment decisions that are not based on the true costs to the economy (including risk assessment) of the investment concerned.

2.3 EIB financing in ACP

Under the Lomé IV Convention (1990-2003), the Bank financed 410 projects, covering 536 operations, of which 139 were funded from own resources and 397 from risk capital. Total signatures amounted to EUR 4,567 m, with an average loan per operation of EUR 8.5 m.

[6] Under the second financial protocol (Lomé IV B) this interest subsidy is no longer available to non-ACP project promoters or if shareholders are not to a majority from ACP countries.

[7] Most important, the interest subsidy, only available for specific purposes, is reduced to 3% and the actual rate charged to the borrower should not be less than 50% of the undistorted EIB reference rate for a loan with the same profile.

The following table gives a breakdown of the mandate into risk capital and own resources and the respective amounts committed and disbursed.

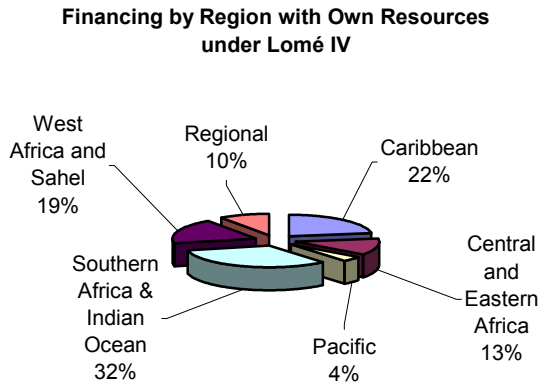
Numbers in EUR m	Risk Capital	Own Resources	Total
Lomé IV mandate	2,125	2,858	4,983
Loan signatures	2,145	2,422	4,567
Net commitments	1,939	2,113	4,052
Net commitments as % of mandate	91%	74%	81%
Disbursements	1,635	1,809	3,444
Disbursements as % of commitments	84%	86%	85%

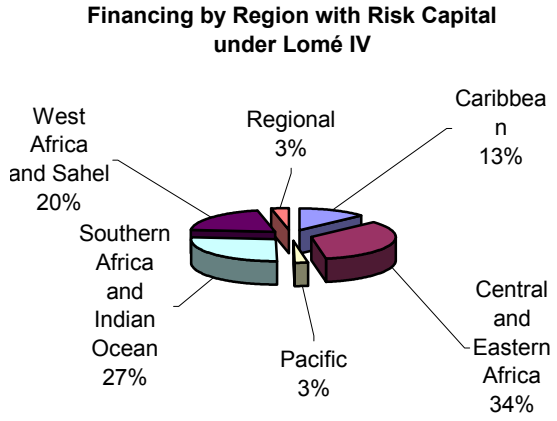
Net commitments represent total loan signatures minus cancellations before funds were disbursed, which represent about 10% of loan signatures.

91% of the risk capital the Bank has received under Lomé IV was committed, and the remaining portion was cancelled once the Investment Facility became operational.

Only 74% of the OR mandate was committed. The mandate is considered as a maximum amount available without any formal obligation of commitment; however the OR envelope for Lomé IVB seems to have been overestimated.

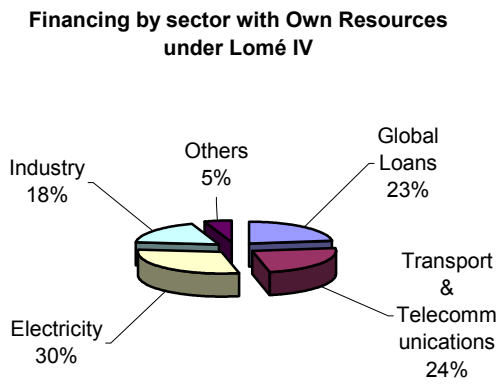
The geographical breakdown of EIB lending as shown below (see Annex 1 for a more detailed analysis) indicates that the bulk of EIB finance went to Africa, with Southern Africa receiving almost one third of total EIB lending.

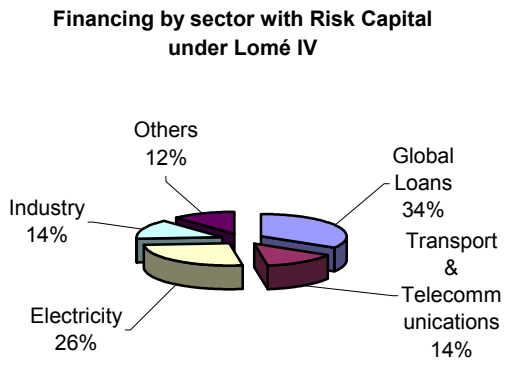




Comparing the amounts programmed in the NIPs of the individual countries concerned (see Annex 1) with the actual amounts financed, it shows that relatively large amounts went to the "bankable" countries such as most Caribbean countries (ratio above 300%) with less developed regions such as West Africa & Sahel receiving far less (ratio about 130%). Absorption capacity of the countries is clearly related to their level of economic development, in particular for own resources lending.

As the sector breakdown shows, EIB lending operations in the global loans sector accounted for almost one third of total lending, followed by energy and by infrastructure (transport and telecommunications).





As mentioned above, EIB global loan operations under Lomé IV are subject to a separate evaluation that will be concluded in 2006, while this report focuses on individual loans only.

2.4 Relevance of the operations evaluated

The objectives of all the projects evaluated are consistent with the Lomé IV objectives, the decisions of the EIB government bodies, as well as the beneficiaries' requirements, countries needs, global priorities and partners' policies. The projects evaluated correspond to the sectors of intervention and the entities and bodies eligible for financial support under the Convention. Most of the projects financed have been developed by companies fully or majority owned by ACP shareholders (7), often with a significant shareholding by the State. State entities or bodies have developed three projects and, in one case, the company is majority owned by non-ACP private companies, including a EU company. The sector distribution of the projects evaluated is as follows: 3 in the electricity sector, 3 in the agro-industry or fishery (cotton oil and related products, sugar and aquaculture), 2 water supply projects, and 1 project each in industry (steel products), in telecommunications (mobile) and in transport (airport).

All the projects evaluated concern sectors that were included in the respective national indicative programmes. The projects in the primary sector concern important economic activities of the partner countries. One project concerns sugar production and this activity represents 24% of the GDP of the respective partner country and 10% of the population depends directly or indirectly on this activity. A similar situation applies to the cotton sector (the object of another project), which employs, directly and indirectly, 30% of the population, and provides 45% of foreign currency earnings of the country.

Two electricity projects contributed to meet electricity demand. The other electricity project is an example of regional cooperation (electricity interconnection involving three countries) that allows demand coverage and improves the management of the different systems involved, particularly by using a temporary excess capacity available in one of the electricity systems. This project is a good example to be followed by other regional projects, as it is one of the rare cases that functions efficiently. However, numerous problems encountered during implementation shows the difficulty in setting up such projects.

The water supply projects have covered part of the fast growing demand for water. The steel products project covers regional demand, has introduced new products and contributes to additional export earnings. Similarly, the mobile telecom has substantially reduced the price of the service, which has resulted in a dramatic expansion of mobile subscription (much more than initially expected). Finally, the airport project was a priority for the government, as tourism represents about 60% of foreign currency earnings and about 30% of employment.

The PCRs reviewed show a strong consistency with the objectives of the Convention as well. The contribution to the specific policy objectives is separately rated in only 13 projects (in the older format a single overall rating was given). In ten cases the rating is good and in three cases it is satisfactory.

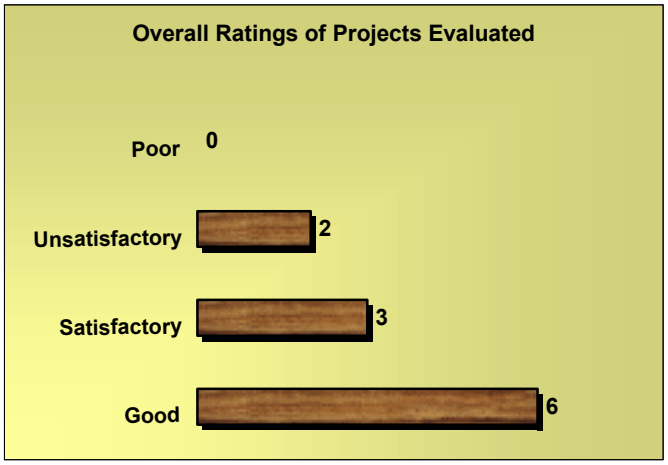
This shows that the projects financed were normally very relevant in terms of their contribution to the development of the respective ACP countries and in line with the EIB's first pillar of value added.

3 PERFORMANCE OF THE SAMPLE OF PROJECTS EVALUATED

The projects were evaluated based on the internationally accepted evaluation criteria of effectiveness, efficiency and sustainability, which translate in an overall rating of the performance of the projects. This assessment relates to the second pillar of value added (quality of the project) as identified by the Bank.

The findings are mainly based on the sample of 11 operations evaluated in-depth. When additional information was available (mostly on project performance: costs, delays) from the review of the PCR, this has been incorporated. It should be recalled that the Bank's procedure regarding PCRs has recently been changed and improved, and should allow for a full review in EV papers later.

Against these criteria, and using a 4-level rating scale, seven projects were rated 4 (good), two were rated 3 (satisfactory) and two were rated 2 (unsatisfactory). None were rated 1 (poor).



In addition to the detailed evaluation of these 11 projects, 29 projects were rated based on recently completed PCRs. Ratings are established by the staff in charge of the ex-ante appraisal of the operations (PJ) in the framework of the self-evaluation process. 14 or 48% of the projects were rated good, 11 or 38% satisfactory and 4 or 14% unsatisfactory. Therefore, a substantial proportion of the projects recently completed have achieved satisfactory or good results according to the self-evaluation process.

3.1 Projects' Effectiveness

The evaluation has covered:

- the implementation effectiveness: physical achievements, timing, costs, and impact on the environment.
- the operational effectiveness: achievement of the objectives in term of services, market, product range, institutional developments, etc..

3.1.1 Implementation effectiveness

Most of the promoters of the projects evaluated were competent and thus able to properly implement and operate the project. Five projects achieved good results thanks to the high quality of the promoters, and in the other four cases the results were satisfactory. In three out of the five cases that achieved good results, the successful performance of the project is explained by the presence of a very competent non-ACP shareholder (in two cases from the EU). In the other two cases, the promoters were from ACP countries. The weakest promoters were in a State owned agro-industry project and in one water project.

3.1.1.1 Physical implementation

Generally, the scope of the projects did not change significantly in relation to the initial expectations, except in the telecom project. In the later, the number of subscribers and the coverage was significantly greater than foreseen and, as a consequence, the capital expenditures have been close to four times higher than forecasted at appraisal. In most of the

other cases, the changes introduced in the scope of the works reflected unforeseen events or project improvements. In three cases, the production capacity of the project was increased and, in another case, the additional investments not foreseen initially concerned environmental improvements. In two other cases some minor investments were not carried out because of changes in the market or on the availability of the necessary input.

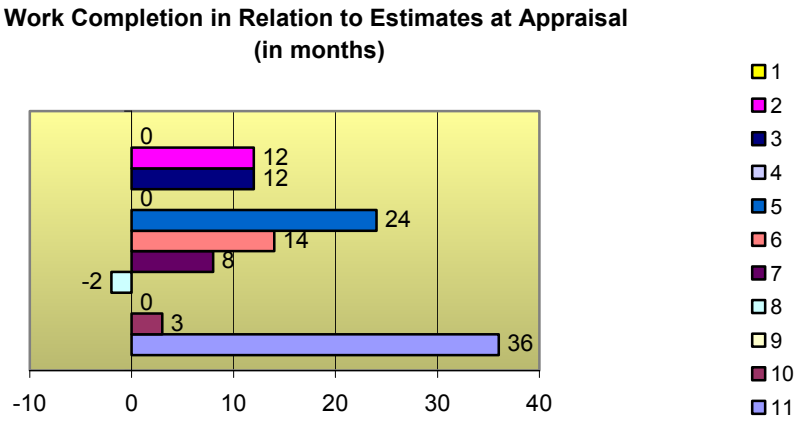
It has to be noted that in the two water projects some important components were not carried out or not done properly. However, they only represented a small share of the total investment.

Additionally, in a few cases some project components included in the EIB project definition had already been carried out and financed when the EIB Board approved the projects. This reflects the agreement with the other financial institutions financing the project, by which each financial partner is responsible for specific components or sub-projects.

3.1.1.2 Timeframe of the projects

As the graph below shows,

- 6 projects were completed "on-time"[8]
- 3 projects showed delays of between 10 and 24 months
- 2 projects were delayed by 2 years or more.



In two of the five projects implemented with delays, the cause of the delays was mainly related to weak management. The reasons for delays in the other three cases were varied: introduction of a technical improvement, the large number of conditions necessary to activate the financial contracts or delays in the procurement process and in the delivery of the equipments.

Of the 29 projects analysed on the basis of the PCRs

- 14 were completed on time (48%),
- 7 projects with delays of between 10 and 24 months (24%), and
- 8 projects with delays of 2 years or more (28%).

[8] defined as either completed early, on-time or with less than 10 months delay

Information collected in the PCRs shows a larger spread, although the percentage of projects considered on time is comparable: slightly less than half of the projects. At the other end of the scale, one can notice extreme numbers - with 20% of the operations showing more than 40 months of delay.

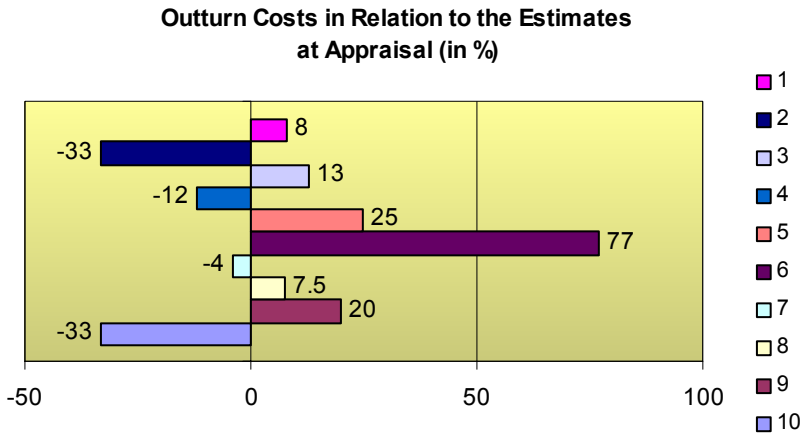
When looking at the projects with long delays, the majority of these are in the water or infrastructure sectors, and rarely in industry/agro-processing - with the exception of one project analysed in-depth.

Because most of the projects that were implemented with delays are in the public sector, the project implementation capacities - in particular of public sector promoters - need to be carefully analysed at appraisal. If necessary, measures to strengthen the promoters' implementation capacities (e.g. technical assistance, training) should be included as loan conditions in the EIB finance contracts.

3.1.1.3 Cost analysis

The comparison of the final costs with those estimated at appraisal (see following graph) was often complicated by the impact of exchange rate fluctuations. Whenever possible, the comparison has been made in EUR or USD, depending on the country.

The following graph shows the outturn costs in relation to the estimated investment costs at appraisal (one project is not included due to substantial change in scope of work following appraisal).



Three projects experienced significant cost overruns (over 15% of the initial estimate). In two cases, this seems largely related to weak management by the promoter and in those cases the reason for the cost increase was related to significantly higher land costs. In the other case, the additional cost was explained by a higher capacity of production of the project and exchange rate fluctuations. On the other hand, in two cases the final cost of the projects was substantially lower than the initial estimates (-33% in the two cases). In one case, this was due to the devaluation of the currency and in the other due to strong competition among the suppliers of the equipments and a lower scope of the works.

When looking at the information gathered through the PCRs we obtain the following results:

- More than 30% cost increase: 3 PCRs or 10%
- between +15 and +30 % increase: 6 PCRs or 21%
- less than 15% increase; i.e. on budget or below budget: 16 PCRs or 55%
- decrease by more than 20%: 4 PCRs or 14%.

Significant cost overruns (more than 15%) were noticed for one-third of the projects, confirming the outcome of the in-depth analysis. The main reasons were changes in project scope and also delays. The PCR review could equally identify projects where the outturn costs decreased by more than 20% (14% of the review), again mainly because of exchange rate fluctuations, and also due to strong competition amongst suppliers resulting in lower than anticipated prices.

3.1.1.4 Environment

The Bank pays significant attention to the environmental aspects of the projects. In two agro-processing projects this led to the financing of additional environmental equipment. In two other projects the promoters were requested to use less polluting fuels in their power stations.

In one case, an Environmental Impact Study recommended the replacement of the existing chimney by a taller one, which was subsequently undertaken. Two further environmental requirements were identified as essential during the appraisal of the project and were incorporated as particular undertakings in the Finance Contract. The interest subsidies from the EIB loan should have been used to create a special fund that should fund additional environmental measures, and low sulphur fuel oil should have been used in the power station. In breach of the Finance Contract, none of these two measures were implemented. Following a project completion mission, written reminders were sent to the promoter. However, he contested the requirement to use low sulphur fuel oil on cost grounds and considering the low environmental impact (whereas global impacts are also systematically taken into account by the Bank). The special fund to finance additional environmental measures was never implemented, and it seems that except for two reminders, the Bank did not forcefully insist on its creation.

Another MDB co-financing the project provided significant value added in environmental terms by requesting the realization of an environmental impact study, the setting up of an environmental monitoring system and of a corporate environmental management system (ISO 14001). The promoter has implemented these measures. The Bank was not informed about the environmental requirements of the other MDB, which indicates that the cooperation on environmental matter between the two Banks that have financed the project should have been better.

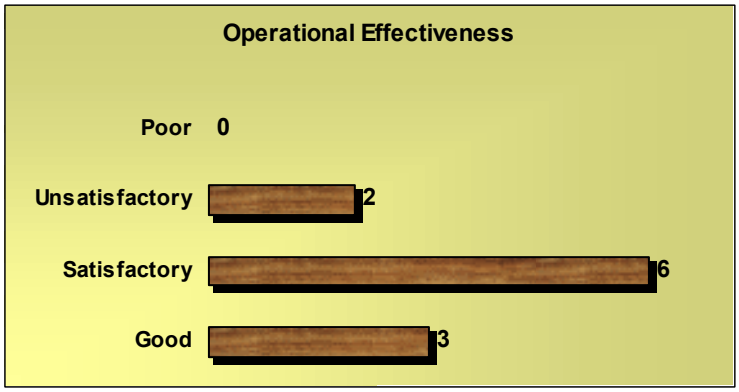
3.1.1.5 Conclusion

Overall the implementation results for the projects in the sample seem acceptable, as only in two cases outturn costs were significantly higher than expected at appraisal. However, delays in completing the projects were significant in several cases.

When comparing this with ex-post evaluations performed in the EU over the last 5 years, there is no significant difference on costs increases (on average 20% of the projects show increases of more than 20%), but the comparison on delays is less favourable to ACP projects. It reflects the fact that contracts are signed at an earlier stage (mainly with public sector borrowers), allowing them to initiate procurement procedures only once the financing is secured.

These good results reflect the fact that the promoters were generally competent and, when necessary, MDBs, including the EIB, helped the promoters. Only in a minority of cases the management of project implementation was not satisfactory and assistance to the promoter would have been necessary. Additional technical assistance would have been required only for the projects developed by public authorities or by State-owned companies.

3.1.2 Operational effectiveness



In most of cases the projects' objectives, as stated in the appraisal reports, have been achieved and thus were rated satisfactory or good in relation to their operational effectiveness.

The rating of the operational effectiveness was unsatisfactory in only two cases. In the case of an airport, the main objective was to improve the facilities in order to increase the level of client satisfaction (mainly tourists) and the airport organisation. These objectives were only partially met. In terms of client satisfaction the main problem was that the time for airport formalities has not decreased as initially foreseen. A comprehensive Airport Development and Management Study prepared at the Bank's insistence not only recommended a scaling down of the investments – which was implemented – but also the creation of a separate airport authority and subsequent changes in the airport organisation – which never took place. Evidence suggests that the Bank's appraisal and follow up sometimes do not pay enough attention to operational/institutional issues (the focus is normally on the investment).

In a water project, the objective to re-organize the water sector to increase its efficiency failed. Additionally, during the evaluation it was difficult to verify whether the main objectives were met or not (increase in the water treatment capacity, etc.), due to the disorganisation of the promoter.

In the other nine projects, while very different from one another, the key objectives were largely met. Generally, the main objective of the projects evaluated was to increase the production and sales of various products or services. In three cases, an important objective of the projects was related to the improvement of the environment. This was the case in an agro-processing project, which included two water treatment plants, and in the two water supply projects that have had a significant positive impact on the environment (reduce saline intrusion by bringing surface water, and reduce the number of people using uncontrolled boreholes, thus reducing the consumption of unsafe water).

In most cases, the market forecasts for the products were confirmed ex post as sales developed as initially foreseen. For the three electricity projects, outputs (either production or transport levels) were close to the expectations at appraisal. Similarly, the two water projects allowed covering additional demand. In one case, the population with access to water services grew from about 80% to 96% as a result of the project. In the other case, more population had access to safe water, but given the high growth of the population, at present only 42% of the population has access to safe water (vs. 90% foreseen).

The projects in competitive markets (sugar, cotton oil and related products, and coated steel products) were substantially affected by market changes. In the case of the sugar project, the actual price was substantially lower (in local currency terms) than expected at appraisal, due to an appreciation of the local currency and a gradual reduction of the prices paid by EU and USA buyers, as a result of the erosion of the political support for high sugar prices[9]. In the case of coated steel products, the value added per tonne was substantially lower than expected. This was linked to the fact that the company was not able to increase prices, particularly in the domestic market, in order to reflect the higher cost of its main raw material (steel) due to the limited ability of the population to pay (aggravated by the poor performance of the economy). As a way to compensate for lower margins, the company expanded sales, particularly exports.

On the other hand, the competitiveness of the cotton oil project in the local market dramatically improved due to the devaluation of the currency (FCFA) and the company had to import oil to cover its needs. However, the devaluation had negative implications on some of the investments included in the EIB project, which became unprofitable. The devaluation took place just before the EIB Board approved the project. An assessment of the impact of the devaluation before loan approval – or a proper ex-ante economic appraisal of the project that is based on world market prices and would have revealed that these investments are economically not viable - might have avoided the realization of some unjustified investments.

[9] This has affected the financial profitability of the project but not the economic viability.

Institutional issues played an important role in the project results of several public service projects (water, airport, electricity and telecom). MDBs helped the government to re-organise the sector in several of the projects evaluated (in the 2 water projects and the telecom). The EIB did not participate in the formulation of the reforms, but often helped, sometimes significantly, in the project preparation.

The two water projects show the high impact institutional reforms had on project performance. The results of one water project were satisfactory, thanks largely to a successful re-organisation of the sector in the country. The former state owned urban water supply company was divided in two: one responsible for the investment in the infrastructure and another one in charge of the management of the water supply system. The latter was privatised following an international bidding process. Additionally, a national office to manage urban sanitation was created. The results of the other water project were unsatisfactory, mainly because a re-organisation of the sector, along similar lines of the previous case, had failed. The low tariffs levels were another reason for the project's failure.

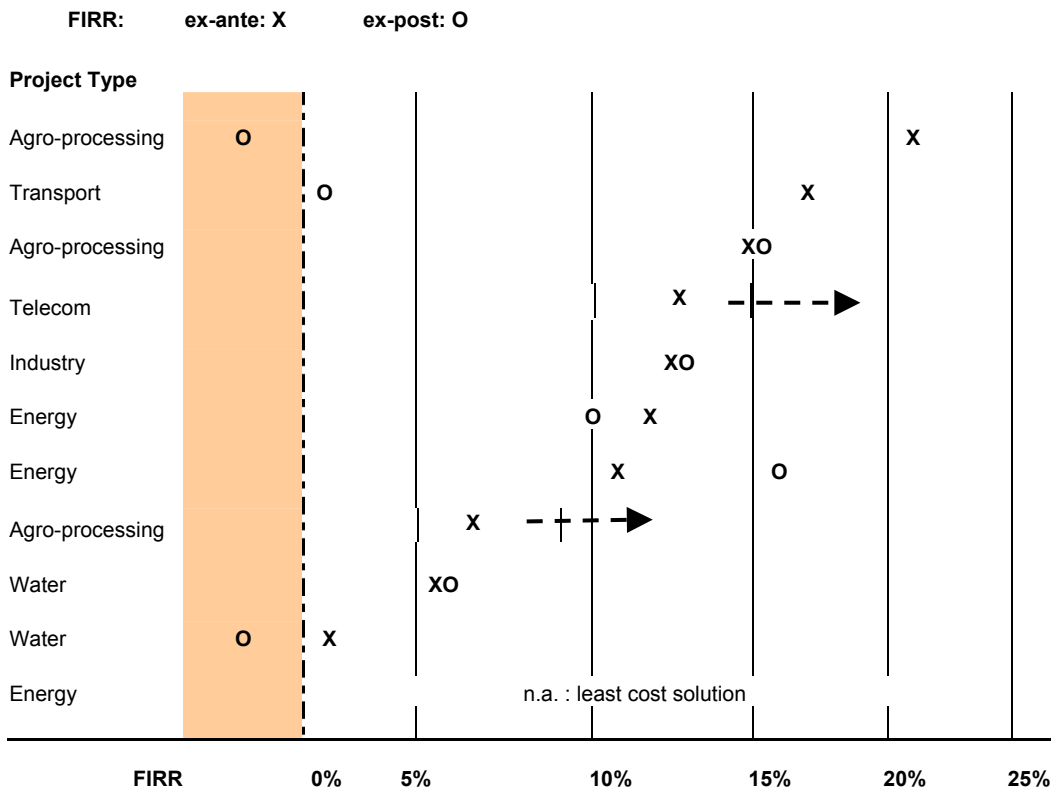
Overall, out of 11 projects evaluated, 9 achieved their key operational objectives, which - as stated in the section related to project relevance - were consistent with important developmental priorities of the partner countries.

3.2 Projects' Efficiency

The Bank estimated the projects' efficiency through the financial and economic profitability of the specific investments financed.

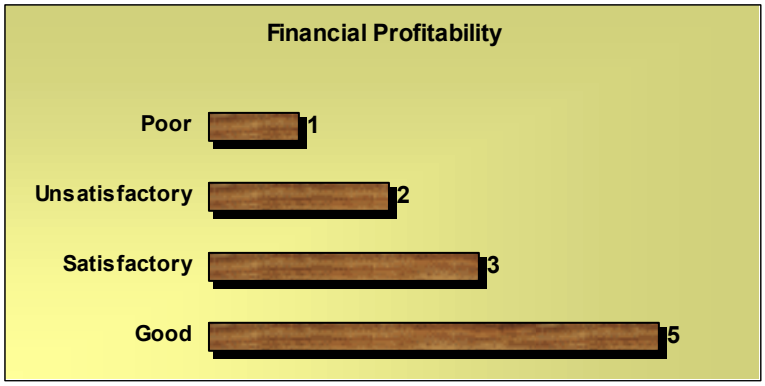
3.2.1 Financial Profitability

The financial profitability of the projects has been re-assessed ex-post, following the same methodology as the ex-ante calculations. The ex-post analysis takes into account the real situation from the commissioning of the projects up until the present, and then the most likely evolution during the rest of the project's life. The following graph summarizes the results of the ex-ante and ex-post financial analysis:



The ex-ante FIRR varied from 21% to 1%. In one case (a new power station) a FIRR was not calculated as such, but used a ratio between production cost and sales price. As the above graph shows, the results of the ex-post evaluation are, with two exceptions, very similar to those obtained from the ex-ante assessment. For seven projects the ex-post FIRRs are above the ex-ante rates, and for four projects they are below the ex-ante rates.

Based on the ex-post financial analysis of the eleven projects evaluated, five projects were rated good under this efficiency criterion, three were rated satisfactory (industrial project, agro-processing project, water project), two unsatisfactory (airport project, water project) and one poor (agro-processing project).



The main reasons for the lower ex-post profitability are different for the projects in competitive markets as compared to those in the regulated public sectors. In the former the lower FIRRs are mainly related to lower sales volumes or prices, or higher costs than initially expected; often linked to a degradation of the economic situation, changes in the international markets for the specific products or currency fluctuations. Good promoters have normally been able to face the adverse circumstances by adapting their market/marketing strategy.

In the public service projects (e.g. water supply, airport) the main reason for a lower profitability of some of the projects is unacceptably low tariffs. In all the projects, the need to increase tariffs was outlined at appraisal and tariff increases were a specific condition of the financial contracts. However, tariffs have not always been increased in practice, and in one water project they have decreased in real terms in relation to the situation at appraisal. This means non-compliance by some of the borrowers with specific loan conditions that should have been followed up by the Bank - not only with the promoters, but also at the appropriate political level if compliance with loan conditions is beyond the control of the borrower (e.g. tariff increases or sector reforms).

3.2.2 Economic Viability

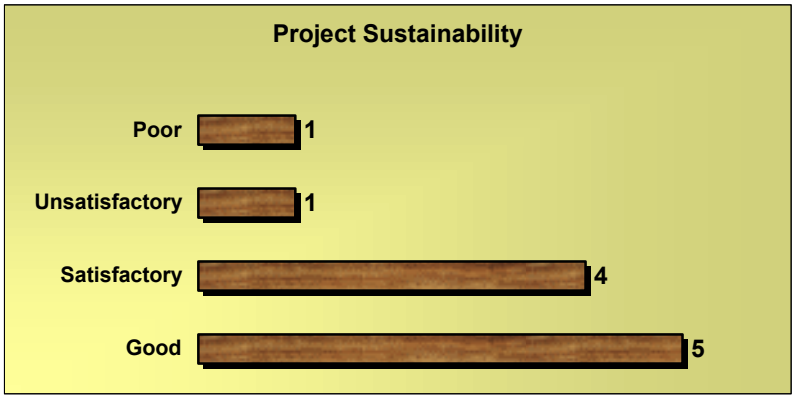
Ex-ante ERRs (economic rates of return) were calculated for seven projects and ranged from 8% to 13%. In one project (a power station) the ERR was not calculated and the economic justification of the project was assessed through a cost-effectiveness analysis (comparing the cost of electricity in the project with the next best alternative for discount rates of 5% and 10%). In the case of an airport project where an ex-post ERR was calculated, the rate was –2% as compared to an ex-ante ERR of 10%. This was partly because the forecasted traffic levels did not materialise and also because of different assumptions made in the analysis.

3.2.3 Conclusion

The projects evaluated show a high variation in terms of their ex-post financial and economic profitability. Some investments have achieved a high profitability, while others are clear failures. This indicates that the risks involved in the projects are high. Therefore, a detailed analysis ex-ante of a project's profitability seems clearly necessary.

3.3 Project Sustainability

Five projects were rated good in relation to the sustainability criterion, four satisfactory, one unsatisfactory and one poor.



In most of the projects rated satisfactory or good, the key issue to ensure projects' sustainability is related to managerial ability. For projects in markets open to competition, such as the steel products or the aquaculture project, these projects were considered sustainable, thanks to the ability of management to adept the project to changes in the market or in the economic/political background. In the other cases (which were public monopolies/regulated markets - electricity, water and the airport) the technical capacity to implement and operate the project explains the satisfactory results in terms of sustainability. The successful implementation of the restructuring of the water sector largely explains the satisfactory results of a water supply project. The sustainability of the airport project could have been rated better if an independent entity would have been created to manage the airport - as had been suggested by the EIB.

The one project rated unsatisfactory in sustainability terms was in the agro-processing sector and was negatively affected by changes in the market and in the economic background. A significant devaluation of the currency had a negative impact on the specific investments financed by the EIB, although it was very favourable for the main production of the factory. In addition, political interference has resulted in a difficult financial situation. After a difficult privatisation process, the project has recently been acquired by a private company and runs at full capacity.

Finally, the sustainability of a water supply project was rated poor because of low tariffs and poor management, which let to mismanagement and serious maintenance problems of the facilities. The potential problems were identified at appraisal and a restructuring of the water sector was proposed, including the participation of the private sector in the operation of the facilities. However, the reform failed. The government unilaterally terminated the management lease contract with the private company. The formal reason for this was the poor drafting of some contractual clauses, which gave rise to conflicts. However, other important reasons were the institutional and financial shortcomings of the public company (in charge of the infrastructures) and the lack of commitment by the government and some staff to the management lease undertaking.

The issues that created sustainability problems in the three projects were identified at appraisal as potential risks. However, the analysis and follow up of these issues might have deserved more attention by the Bank. For instance, a re-assessment of the impact of the devaluation of

the currency (FCFA) on the investments should have been carried out before deciding to finance the project. Similarly, the re-organisation of the water sector should have been followed up more closely with the appropriate authorities.

4 EIB FINANCIAL AND NON-FINANCIAL CONTRIBUTION

4.1 Financial Contribution

High: 4	Significant: 5	Medium: 2	Low: 0

The EIB financing has represented between 7% and 47% of the project cost in the sample of projects evaluated. The part of the EIB in the total final cost of the projects has not changed significantly from the expectations at appraisal, except in the case of the telecom project, as the company's cash flow has ended up being substantially different to that expected at appraisal, leading to a significant reduction of the external financial needs. In 8 cases the share of the EIB financing in the total project costs was similar or slightly lower than foreseen at appraisal, and in the other 3 cases it was higher. In several projects the Bank increased loan amounts in order to help the promoter finance the additional costs of the project that were, in some cases, caused by exchange rate fluctuations when funding was provided in EUR, while investment costs were denominated in USD.

All except one project promoted by public authorities have been exclusively co-financed by MDBs or bilateral development agencies (BDA), as well as grants from the national budget or equity. While for projects fully or majority owned by private promoters, in addition to financing from MDBs and BDA, they have also been able to get financing from commercial banks.

Access to term finance was normally limited, but varied substantially from one case to another. In four of the projects evaluated, EIB financing was critical, in the sense that without the EIB the projects would have been reduced or delayed. In the other six cases, the promoter could have been financed without the EIB, but often at a significantly higher cost. In the telecom project, the promoter mentioned that EIB loans played a critical role as the project was perceived as a high-risk investment. However later, when the project was highly successful, EIB loan conditions (including guarantee requirements) were not attractive anymore, as the promoter has significant liquidity and easier access to finance. Therefore, the promoter decided to prepay the loans. Another project, the risk capital loan, where remuneration included 50% of dividends from shares, was cancelled. This is a PPP project and the contract with the public sector ended up being very advantageous to the project. Therefore, the promoter was no longer interested in sharing the potential profits with the EIB.

In several private sector projects, the promoters mentioned that EIB financing in the project facilitated co-financing by other banks, as EIB involvement provided an implicit quality stamp to the project, which gave comfort to other financers.

Generally, the terms and conditions of the Bank's loans were significantly better than alternative finance at the time the projects were financed, when alternatives in similar terms existed, which were often difficult to obtain. As a result, in nine of the eleven cases evaluated the financial value added by the Bank was judged as either being high or significant. In five cases, it has been possible to make a detailed comparison with alternative financing and in all cases the EIB financing was substantially cheaper than the alternatives at the time the loan was signed, thanks mainly to the subsidy element. However, in one case, EIB funding would have been more expensive if debt forgiveness included in the alternative finance from another MDB had been taken into account. The provision of financing in local currencies (on risk capital finance) was highly appreciated by clients, as exchange risk was considered high.

However, in several cases, the financial value added of the EIB decreased significantly over time and the EIB interest rate turned out to be more expensive than alternative finance (own resources loans). This was the case for fixed rate loans in foreign currencies, as variable rates have decreased substantially since the loans were granted and local currencies have often been devaluated.

Out of the eleven projects evaluated, eight projects received EIB loans from own resources. Seven of the eight own resource loans benefited from interest subsidies[10]. While in four cases no specific use of the interest subsidy was stipulated, in the other three cases the subsidies were used to finance social/development activities. The loan subsidies were placed in a special fund and the proceeds were use to finance training activities. The evaluation confirmed the usefulness of these training activities. In one project, an institute was created targeting young people who require opportunities for education - some of them unemployed and with no other alternatives for vocational training. The institute is financed by the subsidy and by contributions from the company, as well as from fees paid by students. It is expected that the institute will become financially self-sustaining in five years. In the other project, the subsidy is used to train company staff. It appears, however, that the amounts disbursed are lower than the value of the subsidy and training initiatives are still far from adequate to requirements. In the third case, the promoter was asked to create a fund for financing studies and infrastructures of general interest, contributing to the balanced development of the aquaculture sector in the country (the project was in this sector). Several studies have been financed, which have notably contributed to the sustainable development of the sector. In another case the creation of a special fund was also foreseen to finance environmental measures, but it was not implemented. The lack of a uniform approach for the utilisation of the interest subsidies has to be noted.

[10] In line with Art. 235 of the Lomé Convention, the telecom project did not benefit from an interest subsidy because the majority shareholders of the beneficiary company are non-ACP.

4.2 Other non-financial EIB contribution

High: 3	Significant: 5	Not applicable: other

In some cases (water, telecom) the projects were set up in the context of a significant institutional reorganisation. These reforms were developed with substantial help of some MDBs. As mentioned before, the Bank did not participate in the preparation of the reforms. In this context, it should be noted that the Bank, unlike other MDBs, did not have TA funds to carry out these activities.

Generally, the Bank got involved in the early phases of the project preparation. In three of the projects evaluated, the promoter was very competent and the help of the Bank's experts was not necessary. However, in these projects promoters valued the validation of the Bank's experts of the project concept.

In two cases the Bank's experts provided useful experience from similar projects elsewhere in relation with the legal and institutional setting of innovative structures (Special Purpose Vehicles).

In the other six projects, the Bank's experts contributed to improve the project. These projects were either in the public sector or, in two cases, developed by state owned enterprises. The Bank provided significant value added in an airport project. The Bank asked the promoter to prepare an EIB-funded study concerning the restructuring of the airport, which should be integrated in a more general plan, comprising a tourism development plan as well (tourism is the main sector of the economy in the country). One additional objective of the study was the creation of an independent entity in charge of the airport (at appraisal, the airport authority was an administrative unit of the Minister of Communications). As a result, the project was re-defined (location, size, etc.). Additionally, the Bank requested that international tendering procedures be followed for the selection of the consultant to prepare the project, which resulted in a better project.

In the two water projects, the Bank contributed to an improvement in the investments. In one case, the Bank, in cooperation with the other co-financing MDBs, convinced the promoter to reduce the project scope to a more reasonable size (excluding some investments that were difficult to justify). In the other it asked the promoter to carry out an evaluation by a consultant of the ground water situation, and to set up a monitoring system. Finally, in a power generation project, the Bank asked the promoter to carry out a Demand Side Management study, as mentioned before.

In several projects the Bank provided value-added linked to its thorough technical-economic due diligence, through the scrutiny of the procurement process or through reviews of the environmental studies. In two cases, the PCRs produced by the Bank's experts claimed that the Bank's intervention lead to a cost reduction (better procurement) or environmental improvements.

Overall, it can be concluded that the evaluation confirmed the view that the EIB has substantial non-financial value added to offer in less developed countries such as the ACP, by getting involved in projects at an early stage and helping, in particular public sector promoters, during project preparation and implementation.

This is further confirmed when comparing this evaluation to previous ex-post evaluations performed by EV in EU countries, where EIB non-financial contribution is rarely provided, or requested; this contribution is also more significant than in the Mediterranean Partner Countries, where the Bank impacted about half of the evaluated projects.

5 EIB MANAGEMENT OF THE PROJECT CYCLE

Summary ratings	Good	Satisfactory	Unsatisfactory	Poor
Overall	3	7	1	-
Appraisal	6	4	1	-
Monitoring	2	7	2	-

5.1 PROJECT IDENTIFICATION AND SELECTION

Based on about 40 years of lending activities in the ACP countries, the EIB has a well-established presence in the regions and has developed close relationships with the governments and other important public sector bodies in most ACP countries. Therefore, and even though programming exercises are not very detailed, EIB staff are usually well aware of the planned public sector capital investment programmes. As a result, the Bank has identified the evaluated public sector projects at an early stage, either through regular contacts with Governments because these projects are related to other investments already financed by the Bank, or through regular contacts with co-financiers such as the World Bank. Because of the early involvement in the projects, the Bank often has a substantial input in important aspects such as the definition of the project scope, the phasing of the investments or the institutional set-up required to safeguard a proper implementation and operation of the projects (see above).

In the private sector no systematic approach to the identification of projects has been developed, and planned investments are usually identified on an ad-hoc basis - often through information received from local banks that are global loan partners of the EIB. Because the financing of private sector investments is of increasing importance to the Bank (Investment Facility Committee), more systematic approaches to the identification of projects suitable for EIB funding should be developed.

5.2 PROJECT APPRAISAL

Once a project has been screened informally in a process that focuses on eligibility criteria and on the project context, such as the sector and institutional set-ups, promoters, availability of guarantees if required etc., a detailed appraisal is undertaken by the internal appraisal team. The EIB appraisal is usually based on existing feasibility studies or similar project documents (market studies, sector reviews, financial projections etc.). Because the EIB appraisal is based on existing studies, important aspects that have not been addressed in these existing studies may not be analysed in detail during the appraisal. For example, the possible use of transfer pricing by the promoters of an agro-processing project to realise the financial profits in a low tax environment (Monaco) rather than in the ACP country itself – thereby substantially reducing the economic/fiscal benefits accruing to that ACP country- was not addressed conclusively during the appraisal exercise.

An important feature to be noted from the financial and economic appraisal of the projects evaluated is the difference in the level of detail in the analysis to determine the financial and economic viability of the individual investment projects, and the absence of clearly defined benchmarks used in the decision making process to accept (or reject) a project. With few exceptions the general approach used during ex-ante appraisal has been a cost benefit analysis to determine the projects' financial and economic rates of return.

In the financial analysis, financial internal rates of return (FIRRs) of between 1% and 21% have been calculated for the projects evaluated; these were considered sufficient to accept the projects. In none of the cases was a benchmark[11] established against which the project's FIRR was measured, and it is often not clear why an estimated FIRR is considered sufficient to accept a project.

Likewise, in the economic analysis, economic rates of return (ERRs) of between 8% and above 13% have been calculated for those projects that were analysed within a cost benefit framework (seven out of eleven projects). In none of the cases has the benchmark of opportunity cost of capital for the country concerned[12] been established, and it is often unclear on what basis the estimated ERR has been considered sufficient to accept the project from an economic point of view.

What is important to conclude is the often unclear methodology used in the financial and economic appraisal of the projects, and the lack of defining benchmarks that have to be established for each project - depending on the cost of funding and on the opportunity cost of capital of the country concerned, and that were used as the basis for accepting or rejecting a project.

[11] Based on the project's anticipated finance plan, the weighted average real cost of funding of the project can easily be established.

[12] For those ACP countries that have access to international capital markets this rate will be around 3 – 5% in real terms.

Delays between EIB project identification and subsequent approval of a loan and the actual signature of finance contracts or the disbursement of funds are frequent and usually caused by factors beyond the control of the EIB. Typical examples are long bureaucratic procedures to receive necessary permits (e.g. environmental or building permits), licences (e.g. trade or industrial licences) or other governmental approvals (e.g. budget allocations, legal opinions) required before finance contracts can be signed or project implementation may commence. Linked to this, a significant number of projects identified are abandoned before Board approval.

Thereafter, more than 10% of the individual loans approved by the EIB Board are cancelled before being signed, and in addition about 9% of the signed loans are cancelled before the funds are disbursed (see paragraph 3.2 of annex 1 for details).

Cancellations have a cost for the Bank, which could be limited through the consideration of appraisal fees.

5.3 MONITORING

Monitoring of physical and financial project implementation has not been a priority in past activity at the EIB. It is often only undertaken in the context of the appraisal of new lending activities. As a result, compliance with loan conditions and particular undertakings as incorporated in EIB finance contracts has, in some cases, not been followed up properly. Examples are two projects where loan conditions have not been fulfilled (e.g. use of low sulphur content fuel oil, tariff increases) or a project for which a project completion report was never received. This is reflected in the results of the evaluation exercise.

With the recent recruitment of monitoring assistants for each of the ACP lending divisions the lack of proper monitoring should be addressed, but effective results are not expected before 2006.

6 LESSONS LEARNED AND RECOMMENDATIONS

6.1 BANK'S STRATEGIES AND POLICIES / PROJECT SELECTION / RELEVANCE

The Bank's strategy is well defined in the texts of the successive Conventions, which also include procedural aspects.

This evaluation has highlighted the critical parameters in which the Bank's mandate has to be managed:

- a large number of countries (68 ACP countries)
- a complex economic environment
- significant spread of sectors[13]
- with significant differences in the quality of promoters (specially when looking at public vs. private)
- two types of resources almost equivalent in volume, but with different characteristics - in particular regarding the security to be obtained
- implying a growing variety of financial products available.

The trend towards a less rigid programming exercise allows the Bank more flexibility in the selection of projects in order to meet quantitative lending targets. To be eligible for EIB finance and therefore "relevant" under pillar one of the Bank's value added concept, a project has to be in one of the main economic sectors listed in the Lomé convention and included in the NIPs. Under such a general approach it is sufficient to select a few large-scale projects in the relevant sectors to meet the quantitative lending targets in a cost effective way. As a result of the less rigid programming exercise, there is a trend in EIB lending operations to provide increasingly large loans for projects in countries with the most favourable investment climate (e.g. basic infrastructure projects in more advanced economies). To maximise the value added the EIB can provide through its lending operations to ACP, the general development objectives of the external lending mandates should be more narrowly defined and elaborated upon in a lending strategy that aims at selecting those projects that would benefit the most from the value added the Bank is able to provide.

The observations made under this evaluation highlighted the extreme diversity of cases, not always with explicit justifications. Therefore it is important to keep a minimum set of guidelines in the future, not only regarding the financial products available and their characteristics, but also looking at geographical and sector distribution. A more focused approach would need to be discussed with the EU Commission, the countries concerned, and other stakeholders. The Investment Facility Committee might be an appropriate forum in which to present ex-ante strategies and discuss results regularly. EIB value added under pillar one could then be maximised by selecting those projects that contribute the most to well defined priority objectives of the EU.

[13] see Art. 236 of the Lomé Convention that lists industry, agro industry, tourism, mining, energy, transport and telecommunications.

6.2 QUALITY OF PROJECTS (EFFECTIVENESS/EFFICIENCY/SUSTAINABILITY)

Weak management capacity of the promoter has been the single most important reason for shortcomings in project performance (related to implementation and operational effectiveness). This finding refers mainly to public sector projects. To address this requires:

a) a closer analysis at appraisal of the institutional set-up and sector framework,
b) the incorporation of appropriate covenants in Finance Contracts concerning necessary institutional strengthening (e.g. establishment of Project Management Units supported by Technical Assistance) and other measures such as sector reforms, tariff increases etc., and
c) a closer monitoring and follow up of the implementation of the covenants included in the Finance Contracts.

The follow-up of this last point has been a particularly weak point[14], and the EIB should be prepared to penalise non-compliance with appropriate steps, which could ultimately mean the cancellation of the credit or the call of defaults and demand for repayment of the loan.

Another key finding of the evaluation was that the financial performance of projects that operate in competitive markets was often substantially affected by changing market conditions and by other shifting economic fundamentals (e.g. changes of domestic prices due to exchange rate changes, high price elasticity of demand due to limited ability to pay of local population, changes in EU sugar pricing policy), resulting in a poorer than expected financial performance of the projects (ex-post FIRR below ex-ante FIRR). The findings point to room for improvement of the ex-ante economic analysis, because a proper economic analysis that is based on efficiency criteria would reveal the financial vulnerability of a project to such changes. Projects that are not financially sustainable if the economic environment is moving towards liberalised market conditions are economically not viable and would not pass a proper economic analysis.

6.3 FINANCIAL AND NON-FINANCIAL EIB CONTRIBUTION

EIB loans in ACP countries are usually cheaper and have longer maturities (grace and amortisation periods) than alternative sources of funding. As loans with similar conditions are often not available, it is in general difficult to quantify the financial value added the EIB loan carries for the borrower. However, most of the EIB loans from own resources attracted an interest subsidy of up to 4% that is easily quantifiable. No uniform approach for the utilisation of this subsidy was developed. While in some cases the subsidy is earmarked for specific purposes (e.g. training funds, technical assistance, studies), it often accrues to the borrower for no specific purpose. This point should be further analysed in the Evaluation of ACP Global Loans.

[14] At the extreme is the case of a water project where the lack of appropriate tariff increases (included as loan conditions in the EIB finance contract that were never enforced) resulted in the water company becoming insolvent.

The non-financial contribution of the Bank has been highly significant, even without the availability of grant funds for technical assistance. This contribution can and should be increased if the Bank wants to support less matured public sector projects, in particular when dealing with those projects having a large contribution to the Millennium Development Goals (such as projects in the water and sanitation sector). Adequate resources should be identified.

6.4 MANAGEMENT OF THE PROJECT CYCLE

The noted involvement of the Bank's staff in the operations has two relative deficiencies:

- the work devoted to identification and appraisal is not always paid for, given the relatively significant percentage of cancellations;
- the monitoring of the operations has sometimes been deficient.

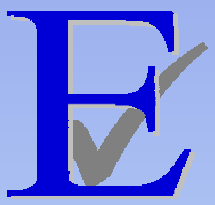
Such deficiencies should be compensated for through adequate measures.

Further efforts should be devoted to a more uniform approach to the assessment of the financial and economic viability of the projects and to the decision rules.

Evaluation of individual operations and global loans in ACP countries

Special report on EIB activities under Lomé IV:

Guy BERMAN



Contents

1 CONVENTIONS BETWEEN EUROPE AND THE DEVELOPING COUNTRIES

1.1 Background

Cooperation with certain developing countries or territories has always been an important feature of European action (EEC, ECSC and later the European Communities and the European Union).

This dates from the very foundation of the EEC: Part IV of the 1957 Treaty of Rome established an "association" arrangement for the French, Belgian and Italian 'colonies'[15], later defined in greater detail in an implementing convention. After independence of the FWA and FEA member countries[16], the Yaoundé Conventions continued the relationship between the EEC and the same countries, now known as the "AASM"[17], (Yaoundé I: 1963; Yaoundé II: 1969). With the accession of the United Kingdom, the agreements were enlarged to also encompass the former British colonies[18], and the Lomé Conventions between the EEC and the countries henceforth known as the "ACP" came into force, each for a five-year period (Lomé I: 1975; Lomé II: 1980; Lomé III: 1985; Lomé IV: 1990; Lomé IV bis 1995). Finally, in 2000, the Cotonou Agreement was signed to continue fostering the Union's cooperation goals.

The list of signatory countries expanded slightly on each occasion – on the EEC side with the accession of new Member States and on the ACP side with newly independent States (Zimbabwe, Namibia, etc.), former colonies of the new Member States (Mozambique, etc.) or others (Haiti and the Dominican Republic). Annex I gives a detailed list of the partner countries for each Convention.

1.2 Fundamental principles of the Conventions

Clearly, the fundamental principles have developed from one Convention to another. Key features are as follows:

1. From the outset, substantial financial aid, via the European Development Funds (EDFs) corresponding to each Convention. According to the EEC, the successive amounts (see Annex II) have increased substantially; according to the ACP countries, the increase has not even kept pace with population growth and inflation. One unusual feature is that the EDFs are not part of the EEC/EU budget, but instead are financed directly by Member States using apportionment criteria agreed for each Convention (the document referred to as the "EDF Financial Regulation", which also governs many of the procedures for use of the funds) and ratified by each Member State.

[15] See the complete list of participating countries for each Convention in Annex I.
[16] French West Africa and French Equatorial Africa.
[17] Associated African States and Madagascar.
[18] Excluding those which had obtained independence prior to 1957, such as India and Pakistan.

2. Since Yaoundé (1963), involvement of the EIB, either to use part of the EDF's funds (special loans, and later risk capital) or to provide additional financing (loans from the Bank's own resources).
3. The multiannual nature of this aid – with the Conventions lasting for a five-year period or longer – and the guarantee that these sums will be disbursed – i.e. that appropriate ability to absorb them will be found in the beneficiary countries; in return, the period during which EDF funds may be used is, with a few exceptions, unlimited.
4. Since Lomé (1975), there has been a commercial aspect, with three components:
    - opening-up of the EEC market to ACP products, with lower customs duties;
    - for certain items, guaranteed prices well above the world market price (sugar, meat, bananas, rum, etc.);
    - the Stabex mechanism guaranteeing stable earnings even if the world price of certain products (cocoa, coffee, groundnuts, etc.) falls.

    Under Lomé II, a further system, similar to Stabex and known as Sysmin, was introduced for mining products.
5. Also, ever since Lomé I, formal recognition that the partners are equal and therefore that each ACP country is entitled to define its own policy priorities and projects in a wholly independent manner. This occurs through "indicative national programmes", defined jointly at the start of each Convention or protocol.

1.3 Particular features of Lomé IV

Lomé IV incorporated most of the provisions of the earlier Conventions and added three fundamental innovations:

- an important political dimension, with the promotion of human rights, democracy and the role of women;
- the introduction of environmental protection and far greater emphasis than before on the role of the private sector;
- the importance attached to structural adjustment, with specific support mechanisms, where necessary with the imposition of macroeconomic conditions.

The Agreement was signed for 10 years, with a Financial Protocol setting the amounts for the first period (1990-1995). A 'mid-term review' was scheduled, with a second Financial Protocol to cover the period 1996-2000. These were signed in Mauritius in 1995. The review reinforced the political aspect and introduced the possibility of suspending aid in the event of serious violations.

1.4 Changes introduced with Cotonou

Signed on 23 June 2000 in the economic capital of Benin, the Cotonou Agreement introduced much wider changes than the successive Lomé Conventions. These relate, primarily, to the following areas:

1. The priority aims are different – combating poverty and integrating ACP countries into the global economy by liberalising trade (for Lomé IV, the aims were the economic, cultural and social development of the ACP countries).

2. The approach is more comprehensive, recognising that development requires a coherent multidimensional approach, with political aspects (regional cooperation, the rule of law, the stability and security of persons and transactions, etc.), economic aspects (private sector development, structural and sectoral reforms), and social aspects (education of the young, equality of opportunity), as well as cultural and environmental aspects, with due regard for the specific features of each country.
3. The Agreement stipulated that various preferential mechanisms, including guaranteed prices, Stabex and Sysmin, should end after 2007. This was intended, in particular, to meet demands from the World Trade Organization (WTO). Regional economic partnership agreements (EPAs) are intended to gradually replace them.
4. Commission aid is no longer automatic and is dependent on performance (institutional reforms, use of resources, reduction of poverty, sustainable development measures, etc.). Each country has a budget for programmed aid, based on a national cooperation strategy (NCS).
5. The people concerned must be informed and consulted in order to increase the involvement of local economic and social forces and communities in the implementation of projects.
6. A "political dialogue" is provided for on all questions of mutual interest, at national, regional or ACP group level. Procedures have been established in the event of breaches of human rights or corruption, involving, in particular, the suspension of aid.

The Cotonou Agreement was signed for a 20-year period, with five-yearly financial protocols.

2 THE BANK'S ROLE UNDER LOMÉ IV

2.1 Background and principles

The EIB has had a role under the Conventions since Yaoundé, under which it was responsible for administering the special loans. Through its operations since 1963 and during very frequent discussions with the Commission and Member States, the Bank's particular focus has been gradually defined, as has a recognition of its ability to support EEC-ACP cooperation in two areas:

- financial products: lending operations, complex financial structures, in particular quasi-capital;
- sectors: the Bank makes loans to industry and "viable infrastructure" – i.e. where direct revenues are received for services provided; these include electricity, telecommunications, railways and water supplies. The underlying principle is that investments financed by loans must generate the revenue needed to service the debt.

This has gradually developed into an operational demarcation line between the Commission and the Bank, with the former operating in the social, educational and agricultural sectors, etc. However, there have been a number of exceptions: for instance, with effect from Lomé II, the Commission granted loans to public or private enterprises via Sysmin.

From Yaoundé onwards, the Bank was also given responsibility for lending from its own resources to ACP countries with the guarantee of Member States[19]. This enabled the amounts of EDF financial transfers to be stepped up significantly (see amounts shown in Annex II). Above all, the cost to Member States was negligible, being limited to the Bank's calls on guarantees. In practice, the amounts claimed from Member States have proved to be small[20], and have always been claimed on political grounds (Zaire, Nigeria, etc.; for example, since 1990 the highest annual amount claimed has been EUR 32m, while for the last 10 years (1995-2004) the average was close to EUR 20m).

2.2 The Bank and development strategy

Extensive discussions were held throughout the world on the most effective ways of contributing to progress in the developing countries. To simplify, the principal concepts discussed were:

- the 'trickle down' theory: all investments increase a country's wealth, which then trickles down gradually to the entire local population;
- the programme approach: investments must be incorporated within programmes in which all the components are focused on achieving specific aims (often defined using the logical framework method);
- structural adjustment: a macroeconomic framework (normally neo-liberal in nature) is more fundamental than anything else for development;
- reduction of developing countries' debts, which impose an 'intolerable' burden on them and are a barrier to any progress.

The Bank participated in virtually all the discussions on these issues, notably at the World Bank, the leading institution for all analytical work related to these areas, and at the Commission, which took important initiatives, for example in relation to debt.

Following these discussions, the Bank retained both the financial instruments and the means of using them; under Lomé IV they remained virtually identical to those developed previously. All the new instruments (HIPC, assistance for structural adjustment, Sysmin) were therefore reserved for the Commission[21]. The only minor exception was exchange risk, where intense pressure from the ACP countries, following numerous devaluations, led to the introduction of a mechanism covering such risk (see section 2.4).

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[19] This guarantee applies to all loans and covers all risks (political, project performance, commercial, etc.; unlike other geographical areas, there is no distinction); for Lomé IV and IV bis, up to an overall maximum of 75% of the total credit facilities granted by the Bank under all loan contracts.

[20] Notably as a result of the Bank's policy of not making further loans or disbursements to countries in default of their loan obligations.

[21] Article 1 of the Financial Protocol is quite clear: "The Bank shall administer the loans on its own resources, including interest subsidies, as well as risk capital. All other resources of the Convention shall be administered by the Commission".

2.3 Financial instruments under Lomé IV

There are three ways of categorising the financial instruments:

- by source of funds;
- by beneficiary;
- according to how the funds are distributed.

The first categorisation is the most traditional:

- operations from own resources, financed out of the Bank's own funds and from loans the EIB raises in the market, taking advantage of its AAA rating;
- risk capital operations financed by Member States via the EDFs.

The second approach relates to potential borrowers[22]. The Bank may undertake:

- direct individual operations with the promoter of a single project;
- indirect individual operations involving a single project, with the State in question or an intermediary institution as signatory and the funds subsequently being transferred to the promoter;
- global operations with intermediary institutions, which distribute the funds received to a larger number of final beneficiaries;
- grouped operations, involving a number of operations that are either known at the appraisal stage or not known but fall within a pre-defined category. In practice, this approach has been used to provide funds as a way of enabling the approval of medium-scale operations (normally between EUR 0.5m and EUR 2m) to be delegated to the Management Committee.

The Bank may lend to private, public or semi-public companies, governments, commercial and non-commercial public bodies, etc.

The third categorisation relates to the type of financing instrument and consists primarily of the following:

- ordinary loans from the EIB's own resources on fixed terms (repayment period, grace period and interest rate). These loans attract a 4% interest subsidy, exception in the case of Lomé IV bis (see section 2.4). As regards the interest rate, 'fixed terms' are either a rate set in the contract or one linked in a fixed manner to a benchmark external to the project (LIBOR, EURIBOR, etc.);
- risk capital loans on fixed terms (repayment period, grace period and interest rate). These terms are 'generally' more favourable than those applying to loans from the Bank's own resources, and the rates of interest (always fixed in the contract) are less than 3% (under Lomé IV bis, this limit only applies to loans to the public sector);
- conditional risk capital loans, in which certain factors are linked to the project's success. The variable factors – not specified at the outset – have proved to be particularly numerous:
    - repayment period, with the possibility of an extension if operating conditions are difficult in certain years;

[22] As set out in Article 234 of the Convention.

    - interest rate, with the possibility of a partial link to dividends distributed or to a rate of return on shareholders' funds;
    - amounts repayable, which may be linked to variations in the exchange rate for the local currency, or, in the case of loans financing equity participations, to dividends received or the proceeds from the sale of the shares;
- subordinated risk capital loans, with three main repayment types:
    - linked to the prior repayment of other maturities;
    - for global loans, depending on the amounts of secondary loans repaid;
    - for feasibility studies, with repayment occurring only if the project studied is carried out;
- direct equity participations in companies. These are taken by the Bank 'on behalf of the Community'.

2.4 Differences vis-à-vis Lomé III

The changes for the Bank, compared to the previous Convention are, as we have already noted, very minor:

- The interest subsidy on loans from the EIB's own resources was increased from 3 to 4%, with a final rate of between 3 and 6% (5 to 8% under Lomé III). Its benchmark was the EUR rate, rather than that of an 'EIB cocktail'.
- It became universally automatic, with the oil sector no longer excluded. However, for Lomé IV bis, non-ACP promoters, or those with a majority of non-ACP shareholders, were not eligible for this subsidy.
- Loans from the EIB's own resources in a single currency (requested by the promoter) became possible, rather than a 'cocktail' being received that could vary with each disbursement. The subsidy continued to be calculated on the EUR rates, except that the 3% minimum applied to the currency requested, and the subsidy could, therefore, be reduced on occasions to less than 4%.
- In risk capital operations, the exchange risk could be assumed by the EEC either in its entirety (for direct or indirect equity participations) or to the tune of 50% (on average, for loans to SMEs).

2.5 Important changes under Cotonou

The changes introduced under Cotonou were even more important for the Bank than for the Commission (see section 1.4):

- all risk capital operations and interest subsidies were brought together under the heading of the 'Investment Facility', or IF;
- emphasis was placed on the private sector and on market conditions:
  - the provision of resources without distortion;
  - in particular, interest subsidies became the exception[23];
  - this was to facilitate the development of local financial networks;
  - and to avoid finance being provided for sub-optimal projects[24];
- and the range of products available was enlarged further – quasi-capital in a wider variety of forms - but also technical assistance, grants, guarantees, etc.

Above all, the principle governing operations is that they must enable the IF to maintain its financial equilibrium over time: revenue, including substantial profits on successful operations, must cover operating expenses and offset losses, enabling the fund to be self-sufficient over time. Interest rates will therefore incorporate a project risk factor. This also means that risk analysis has become systematic, with all the relevant Bank departments being involved in this aspect.

Finally, in parallel with Cotonou, the Bank introduced objectives by sector (which did not previously exist) in 2000, in response to a request from the Council.

3 THE BANK'S IMPLEMENTATION STRATEGIES

3.1 Project selection and programming

3.1.1 Programming

From Lomé III onwards, the Commission and the Bank worked jointly with each ACP country to prepare each Convention, via a two-pronged 'programming exercise' consisting of:

- a detailed analysis of the country situation and its priorities, which were then discussed with Member States;

[23] These are only possible for infrastructure projects in the poorest countries and for restructuring, with the amount being capped (to 5% of resources, i.e. EUR 85m for the first five years of Cotonou, compared to EUR 370m under Lomé IV bis). A change is being introduced for Cotonou II, with the new approach being applicable in advance.

[24] Work done by EV shows that while certain sub-optimal projects may have been financed, the fact that the loans were subsidised had nothing to do with their being selected.

- a discussion mission to the country's authorities, ultimately leading to the signing of an 'indicative programme' (IP) setting out the priorities and the amounts available to the country during the Convention. The idea was to enable the countries to prepare their public investment programmes and budgets more effectively with certain knowledge of future EEC contributions. The IPs included an Annex for the Bank showing the priority sectors and amounts.

Under Lomé III, the Bank played a full part in this exercise. Under Lomé IV, the Bank was able to make use of the experience it had acquired and less time was spent on programming, and less again under the second protocol:

- the analysis of the country's situation normally consisted of an examination of operations undertaken in previous years;
- priority sectors became increasingly uniform[25], with a few rare adjustments to take account of country-specific features (the inclusion of maritime transport for island countries and its omission for landlocked ones); thus, of the 79 indicative programmes, 50 used the standard sector formula under Lomé IV bis compared to 14 under Lomé IV;
- in the first protocol, a specific risk capital amount was indicated solely for the poorest countries (according to the list in Article 330) and an order of magnitude of total loans was given for the remainder;
- in the second protocol, only an overall indicative amount was mentioned, without specifying own resources or risk capital;
- programming missions occasionally provided an opportunity to identify specific projects and include them in the IP. This occurred in 18 countries under Lomé IV, but only three under Lomé IV bis.

Finally, total programmed amounts were lower than total amounts handled by the Bank, in accordance with Article 284, which stipulated that 'a part' of risk capital was programmable, in order to preserve adequate flexibility.

b. Project selection

The Bank was not subject to the specific constraint of applying the Union's political aims, as set out in Parts I and II of the Conventions, in its projects. However, they were applicable in spirit, as well as specific factors such as promotion of the private sector (Article 110 (iv)), which could influence project selection.

Under Lomé IV, as previously, or in other regions, the Bank was in a reactive rather than proactive position in that the promoters were required to submit pre-prepared projects for financing by the Bank. It was not part of the EIB's remit to "put together" projects; at

[25] The normal formulation: 'industry, agroindustry, tourism, mining, energy, transport and telecommunications' is a summary of the list given in Article 236 of the Lomé IV Convention, which states that the Bank must finance 'in the first place, productive projects and programmes in industry, agro-industry, tourism, mining, energy and in transport and telecommunications linked to these sectors'.

most – and only on rare occasions (unlike, for instance, the World Bank) – it could assist in putting them into their final form, as was the case with a few projects.

Overall, the Bank's approach often resulted in the identification of potential new projects during programming or project appraisal missions. Specific identification missions were regularly organised, in particular where a new person took over responsibility or where a portfolio was clearly inadequate. Meetings with ministries, local co-lenders and local banks or trade associations (e.g. Chambers of Commerce) provided the normal channels for obtaining information on future projects and/or explaining the Bank's potential contribution as a lender.

3.2 Financing provided under Lomé IV

In addition to the above comments, the volume of operations actually undertaken by the Bank was lower than the amounts approved by the Board of Directors – without taking account of operations that were examined but never came to fruition.

According to statistics for Lomé IV bis, the Board approved operations representing almost 10% more than the amount ultimately signed. Cancellations – with a greater incidence in risk capital than in own-resources operations – indicate the consolidation work still required after operations have been submitted to the Board.

After signature, again a relatively large amount – 10% of operations signed – was cancelled. This percentage may appear excessively high, particularly as it may represent amounts that were available but not ultimately used. On average, 9% of individual loans signed (whether in the form of own resources or risk capital) were cancelled. However, this percentage was higher for global loans (12% for risk capital and 25% for loans from the Bank's own resources, with a sharp increase under Lomé IV bis).

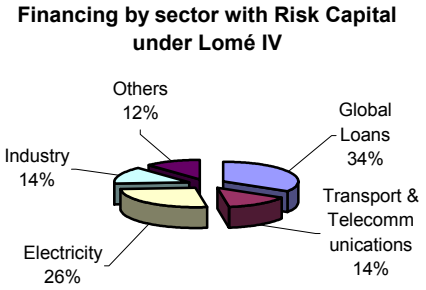
In terms of risk capital, effective commitments totalled 100% under the first Lomé IV protocol, 88% under the second and 78% of the supplementary amount. These last two figures will undoubtedly be slightly lower once all files have been closed. This clearly reflects the fact that a cut-off date (2003) was set for new commitments (in general following cancellations), while there was previously no time constraint (this cut-off date was in fact imposed by the launch of the Investment Facility).

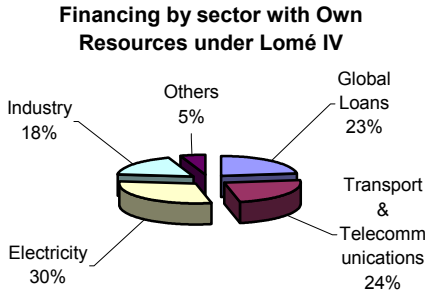
For own-resources operations, net commitments totalled 90% of the Lomé IV mandate and 62% under Lomé IV bis. Although substantial 'available' amounts were announced, the concept of own-resources mandates has always involved a potential maximum figure, with no formal obligation to achieve a particular result. However, the second allocation was significantly over-estimated when the amount was set.

3.3 Breakdown by sector and size of projects

No target was set ex ante for the breakdown by sector, and only a very small number of sectors ('sensitive' ones such as textiles, where the Bank avoided projects, or the mining sector, which was split between the Commission and the Bank) were the subject of specific policies. The ex post statistical examination shows the preponderance of the energy and infrastructure sectors. These are normally public sector activities, whereas the required emphasis (Article 100 (iv)) was on support for the private sector (where project appraisal is undoubtedly more complex).

In terms of own-resources operations, four sectors accounted for the lion's share: electricity represented 30% of the amounts signed, transport and telecommunications 24% and industry 18%. Global loans remained relatively stable (23%), with a well-balanced spread of effort depending on the varying potential of the sectors.

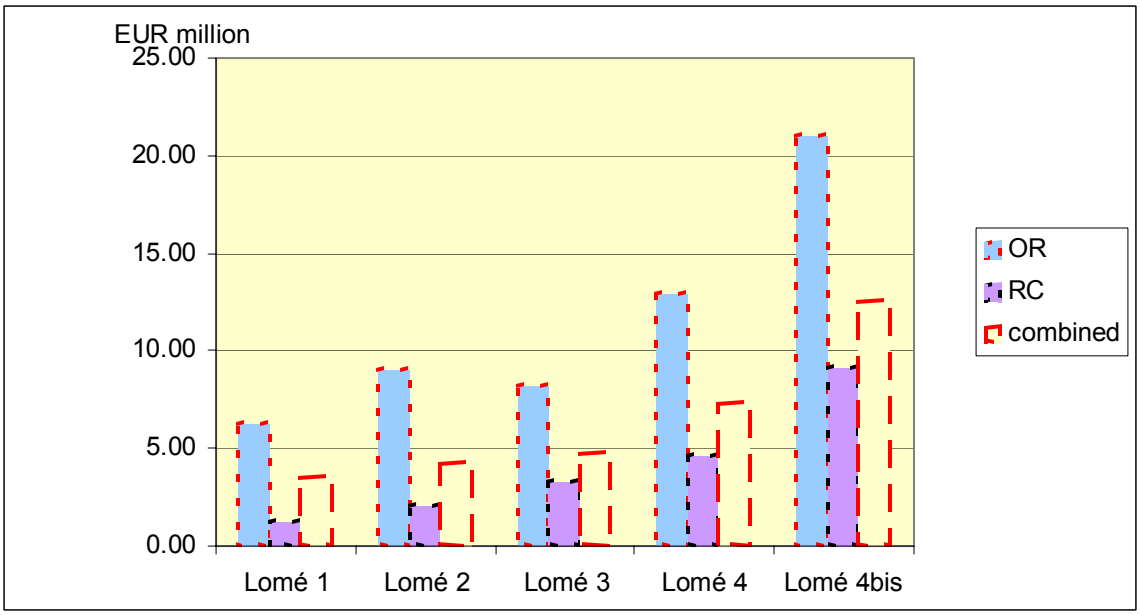




With regard to risk capital, between the two Lomé IV mandates there was a sharp increase in global loans (from 28 to 41%), with an overall share of 34% of total signatures.

<u>Size of projects</u>

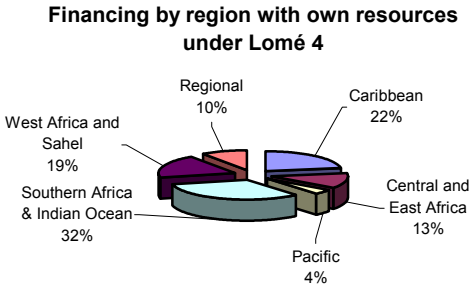
The ex post evaluation also shows that the number of financing operations under Lomé IV and Lomé IV bis was significantly lower than under the previous Conventions. There was a corresponding reduction in the number of beneficiaries of the Bank's operations, while the average amount of loans increased (see graph, amounts in EUR m):



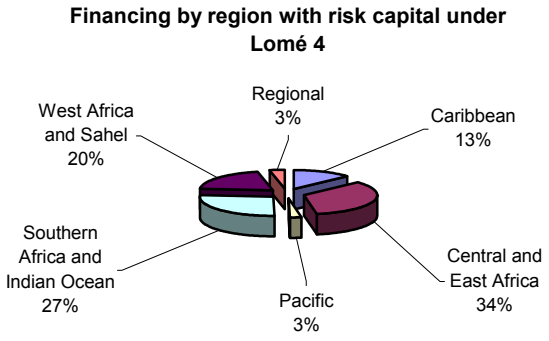
3.4 Geographical breakdown and split between own resources and risk capital

a) Geographical breakdown

The geographical breakdown clearly had a bias towards the 'bankable' countries of the Caribbean and Southern Africa, as the following charts show. No overall target for the geographical breakdown was set for operations using the Bank's own resources, and only risk capital (and then only part of it) was initially allocated (in the 'indicative programmes'), and clearly the ability of each country to absorb these operations was partly dependent on its level of economic development.

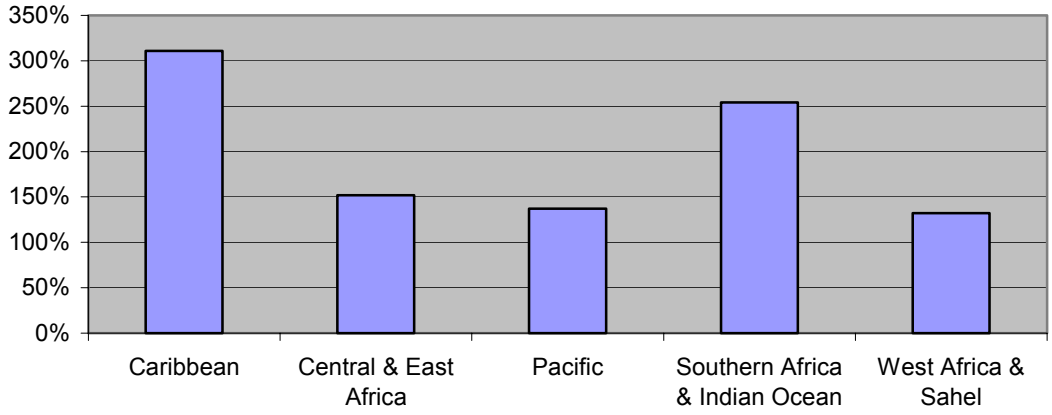


This is reflected in the differing breakdown between loans from the Bank's own resources and those using risk capital. In the former case, the Caribbean region had a significant share, while risk capital was more widely used, as had been requested in fact, in West Africa and Sahel as well as in Central and East Africa. Changes from one protocol to another were not significant, but were much more indicative of the EIB's pragmatic approach to project selection.



b) Actual versus programmed

Actual figures can also be compared with programmed amounts, although, as indicated (see section 3.1), the Bank's programming did not cover all amounts and was more of a forecast than a binding commitment:



Looking at specific countries shows that:

- the Bank achieved the programmed amounts (total Lomé IV and IV bis) in two thirds of the ACP countries where an IP was signed;
- the countries in which this was not achievable were mainly those that were at war or had defaulted on their payments (Zimbabwe, Nigeria) or with a low absorption capacity (Kiribati);
- there were others, however, where the low implementation rate is less understandable (Djibouti, Equatorial Guinea);
- countries which saw the greatest overruns were in the Caribbean, Southern Africa and the Indian Ocean.

As mentioned, this is because these are the geographical regions containing the stable countries which, firstly, attract more investors and, secondly, enable the Bank to use its own resources in larger amounts.

The existence of a minimum indicative programme per country undoubtedly encouraged the Bank to ensure that this minimum amount was provided. Looking ahead, the lack of a programme should not necessarily lead to wider disparities between countries on the basis of their level of development or ability to accommodate investors. Control by the Investment Facility Committee will be important.

c) Loans from own resources and in the form of risk capital

The strategy for selecting loans in the form of risk capital or from the Bank's own resources was initially as follows[26]:

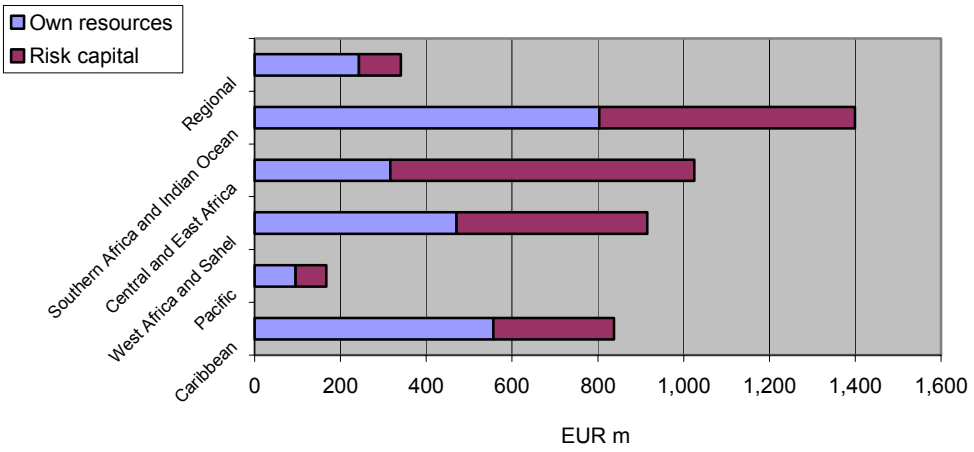
- direct or indirect acquisition of an equity participation could only be financed from risk capital;
- operations in the least developed, island or landlocked countries had to be via risk capital, with some specific exceptions (such as a multinational investing in an export project, or mining projects);
- public sector projects in 'bankable' countries were eligible for loans from the Bank's own resources with a government guarantee; A list of these countries was initially drawn up by economists, with an economic analysis at the time of appraisal of each loan confirming the quality of the country's signature;
- public sector operations in all other countries were in the form of risk capital;
- private sector operations were decided on a case-by-case basis, with loans from the Bank's own resources backed by a government guarantee for projects of national importance.

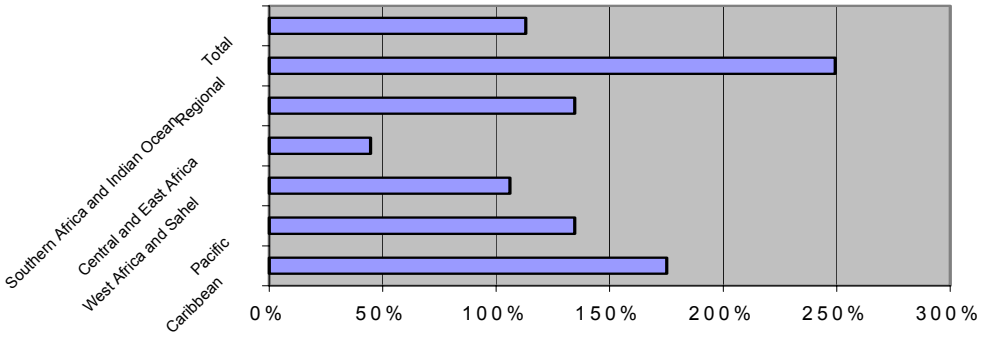
The graphs below show the types of loan actually granted in each region.

In general, the strategy was adhered to, with two changes: bankable countries were increasingly few in number and the World Bank's request to limit State commitments meant that government guarantees became increasingly rare and were replaced by those of bank syndicates (which sometimes involved significant delays in disbursement).

In 1998, the Court of Auditors criticised the lack of specific allocation criteria and the Bank's low appetite for risk, stating that stricter criteria and guidelines for the use of risk capital should be defined in order to support development goals more effectively.

[26] The guidelines are referred to in Article 268 of the Convention.



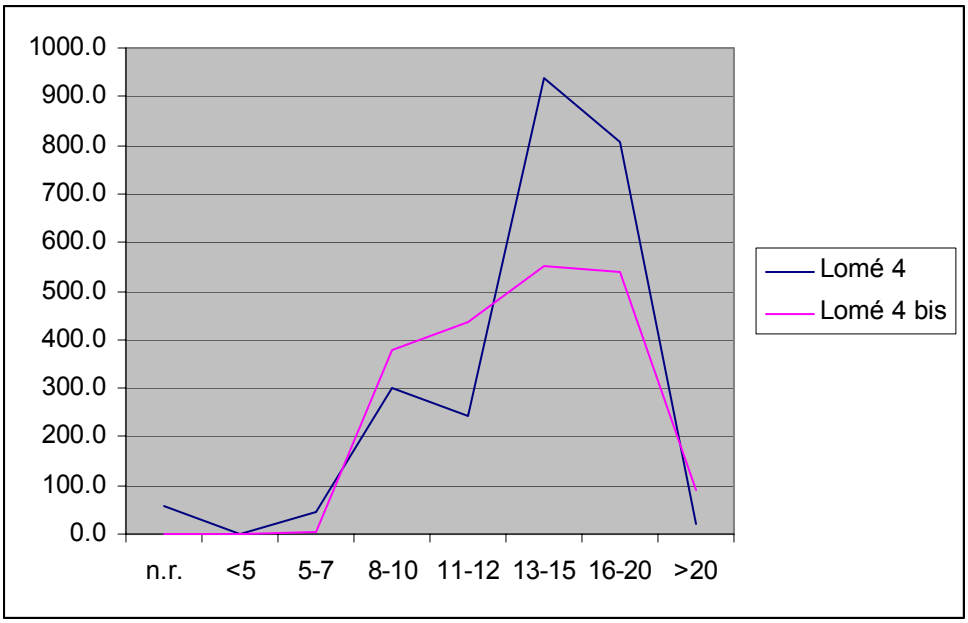


4 FINANCIAL PRODUCTS OFFERED BY THE BANK

4.1 Financing arrangements

The Bank has used a number of mechanisms (see section 2.3), often in an innovative manner, with decisions taken on a case-by-case basis. Consistency of selection has basically been ensured by a 'word of mouth' culture and very few documents were able to be found laying down rules or providing guidance on issues such as:

- the portion of the project cost to be financed: only the official maximum of 50% was applied for loans from the Bank's own resources;
- the term of the loan: the Convention stipulated a maximum of 25 years, while the PJ Manual – which is not specific to ACP countries – recommends a term roughly in line with the life of the project; the actual term is often very different, either longer or shorter. The graph below shows the ex post breakdown of loan terms. To summarise: the average weighted term (excluding equity participations) was approximately 15 years for both Lomé IV and Lomé IV bis, which is satisfactory;



- risks and security: the Bank systematically demanded security for loans from its own resources in addition to that provided on a blanket basis by Member States[27]. The – less expensive – guarantee of an ACP government was initially sought as a matter of course; later, as the countries for which this was acceptable became increasingly rare[28], guarantees by international banks began to predominate; however, guarantees from local banks or trust mechanisms were also used, with varying degrees of sophistication.

4.2 Interest rate subsidies on loans from own resources

According to Article 235 of the Convention, all loans from the Bank's own resources were to carry a 4% interest rate subsidy. For risk capital operations, Article 234 stipulated that the terms should 'in general' be more favourable than for loans from the Bank's own resources and, for lending to ACP countries or intermediaries, the rate was not to exceed 3%.

However, there was an increasing demand, both from certain Member States and in internal discussions within the Bank[29], to avoid 'market distortions'. There were also complaints from other development institutions (often bilateral ones) that the Bank's rates

[27] Presentation by the EIB President to the College of Europe, Bruges, on 18 March 2004, in which he stated that such loans carried a partial guarantee from the Member States but the Bank would only invoke it as a last resort in very exceptional circumstances. It therefore required its borrowers to provide a solid guarantee.

[28] Partly due to the deterioration in the 'signature quality' of certain countries, but also, and above all, due to demands from the IMF and IBRD to limit governmental liabilities.

[29] Between the two traditional views, one holding that the maximum amount of assistance should be given to developing countries, the other that market distortions should be avoided. Since any incentive is a positive distortion, this is a 'zero-sum' debate.

were too favourable when compared to their own[30], thereby constituting unfair competition.

The second protocol introduced an exception to the subsidy, namely where the promoter was non-ACP, or the majority of its shareholders were non-ACP (see section 2.4)[31]. Above all, the Bank tried to respond to this demand in a number of ways:

- by using the term 'in general' to make exceptions, for instance granting risk capital loans at commercial rates (see following section);
- by introducing 'remuneration' for loans in addition to the interest rate, normally linked to the success of the project;
- by introducing 'risk premiums' linked to the project risk as perceived by the appraisal team[32];
- by introducing premiums in cases where part of the exchange risk was assumed by the EEC;
- by requiring amounts equal to the interest rate subsidies to be spent by the promoters on additional activities. These activities were extremely diverse in nature and included measures relating to the environment, training and social investment for workers or the neighbouring population.

These mechanisms were always approved by the Bank's Board of Directors after discussion in the Member States Coordination Committee (known as the Article 22 or 28 Committee). The evaluation will be able to see how they were subsequently applied and take a view on how they performed (see evaluation of individual loans, but also of global loans).

4.3 Interest rates

For loans from the Bank's own resources, interest rates are governed by the Convention and therefore amount to the Bank's rate for the currency disbursed, less the 4% subsidy, with an adjustment where necessary to keep it between 3 and 6%. This adjustment was made either at the end of the period, when the general downward trend in interest rates had brought the rates on the majority of currencies below 7%, or in respect of certain currencies which the promoter wished to obtain, normally with a view to reducing its exchange rate risk. The Bank has always given a positive response to promoters' requests

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[30] This is in line with the unofficial view that it is not a shortage of funds that inhibits increased investment in the developing countries and that a suitable project with an acceptable promoter can always find more finance then it needs … And the fact that financing projects on tougher terms has not helped countries to develop is an argument which appears to have been overlooked ...

[31] This suggests that attracting non-ACP investment to these countries was no longer a priority justifying incentives …

[32] CRD/RM appears never to have been involved in this process, thus preventing it from acquiring experience on ACP risks. CRD/RM is fully involved in the management of the Cotonou Facility.

concerning currencies, even where this led to a reduction in the interest subsidy and was therefore less attractive than a swap (always assuming a swap was possible).

For risk capital loans, no guideline existed, except the need for rates to be lower than 3% for loans to ACP countries and intermediaries, and to be 'in general' more favourable than for loans from the Bank's own resources. The following table shows the breakdown of disbursements by average rates of interest.

Rate (%)	Percentage (number of operations signed)
>1	21
1-2.9	37
3-4.9	30
>=5	12

Rates in excess of 5% may relate either to global loans to the private sector (Mauritania, Jamaica) or to loans to sectors considered as highly profitable (sugar in Swaziland).

The number of rates used are extensive, with, for instance, no fewer than 12 rates between 0 and 3% (0.7%, 0.9%, 1%, 1.1%, 1.5%, 1.7%, 1.8%, 2%, 2.5%, 2.7%, 2.8% and 3%). This confirms the lack of direction given by the Bank to its loan officers, and it is reasonable to ask whether the need for equality of treatment for projects in all geographical areas has really been met.

In the case of a large number of operations (32) the remuneration (and often the method and speed of repayment) has been linked solely to the performance of projects, with the nominal rate being zero. This represents a positive innovation when compared to the earlier Conventions.

4.4 Equity participations

The acquisition of equity participations by the Bank, which has been possible since Yaoundé on behalf of the Community, has occurred historically in three sectors:

- banks or finance companies (national or regional development banks, commercial banks, leasing companies, guarantee funds);
- companies producing goods and providing services; and
- national or (more often) regional investment funds.

Under Lomé IV, the number of direct operations under the first two categories was very small:

- six with development banks, totalling EUR 1.5m, primarily in connection with global loans or capital increases; and
- three with industrial enterprises, totalling EUR 13.4m.

However, under the third category, the number of operations was larger, with a total of 15, amounting to EUR 93m, being undertaken. This represents a new departure compared

with the previous Conventions and was aimed either at assisting development of the local or regional financial sector or at scaling down the Bank's involvement without the need for extra resources.

The above figures do not include 'indirect participations', i.e. loans to intermediary organisations (normally banks or governments) which use the funds to subscribe to shares in the promoter of the project. Some thirty operations of this type were undertaken between 1990 and 2000.

5 COOPERATION

5.1 With the Commission

Cooperation with the Commission – primarily DG VIII (development), and occasionally DG I (external relations) or DG XVII (energy) – has, in general, been active, primarily in one operational and two institutional areas:

- institutionally on a general level, with discussions to finalise the Conventions, protocols and related annexes (Financial Regulation, Member State guarantee contracts, etc.); also with discussions on 'horizontal' topics such as debt or structural adjustment;
- institutionally, on a country-by-country basis, during programming, with discussions on the economic situation, missions to the countries concerned, etc., or discussions on eligibility for facilities such as HIPC;
- operationally for projects, in general on a low-intensity basis (Commission participation in the Member States' Committee and the Board of Directors, Bank participation in the EDF Committee) or on a more intense basis for co-financed projects.

Three specific cases of cooperation are worth noting:

- projects in which technical assistance (TA) was required and where the investment was financed by the Bank and the TA by the Commission. This applied, in particular, to certain global loans where it appeared necessary to enhance the expertise of intermediary banks. However, this type of cooperation often involved a significant effort;
- mining projects in which funds from the Bank and SYSMIN could often have been in competition, but where practical co-financing solutions were found.
- missions, almost always involving a visit to the Commission Delegate to inform him or her of projects studied and to obtain information on major events in the country, possible future projects or those running into problems. Additionally, the 'Article 28' report on each project is sent as a matter of course to the Delegate, and to no one else in the country concerned.

5.2 With the World Bank

As we have noted, the World Bank is both the largest provider of finance to developing countries[33] and, above all, the opinion leader on development philosophy and strategies.

The Bank has held regular coordination meetings with the IBRD Group, also on one operational and two institutional levels:

- on a general level, notably with participation (sometimes at high level) in the annual general meetings or the work of the development groups;
- by country, through participation in consultative groups organised by the IBRD in Paris, or meetings with local representatives during missions, albeit less systematically than with the Commission Delegate;
- on co-financed projects. Normally, in these cases, the Washington Group (IBRD, or increasingly as time went on, the IFC) acted as project leader, with a highly detailed project study which the Bank used during its appraisal process.

Finally, the World Bank leads various methodology coordination groups in which the Bank participates, such as the ECG (Evaluation Cooperation Group) on ex post evaluation methods.

5.3 With other financing institutions

Cooperation with other multilateral institutions has been similar to that with the IBRD, although less intense: the Bank has normally attended the general meetings of the AfDB, IDB and AsDB, with high-level visits occurring on average every two years.

Cooperation with bilateral institutions has been less systematic, largely because they are less well represented in all countries than the multilateral institutions. It has been based more on personal contacts, either in connection with co-financed projects or at Interact meetings or with EDFIs. For several of them (AfD, CDC), participation in the Bank's committees or Boards has also helped to enhance coordination.

Finally, exchange or secondment programmes have been arranged with various organisations, such as the IMF and AfD, although these are limited to one or two people a year.

One particular feature of this cooperation in general is that the influence of one level on another has always been in an upward direction: institutional contacts have been used for resolving difficulties affecting specific projects, but there do not appear to be any instances of institutional meetings leading to new projects to be financed.

* *

[33] However, aid from all Member States, combined with that from the EEC and the Bank, exceeds that of the IBRD Group.

Annex I

List of signatory countries for each Convention

1957 Treaty of Rome: Implementing Convention	
EEC	***Partners***
Belgium, France, Italy, Netherlands, Luxembourg, Federal Republic of Germany	Congo, Ruanda-Urundi, French West Africa, comprising: Dahomey, Guinea, Ivory Coast, Mauritania, Niger, Senegal, Sudan, Upper Volta French Equatorial Africa, comprising: Cameroon (under mandate), Chad, Middle Congo, Gabon, Oubangui-Chari Other French territories: Autonomous Republic of Togo, Madagascar, Comoro Islands, French Polynesia, Southern and Antarctic Islands, Algeria, Reunion, Guyana, Martinique, Guadeloupe, Saint-Pierre and Miquelon, French Somali Coast, New Caledonia and its dependent territories, Somalia, New Guinea
1963 Yaoundé I Convention	
EEC	***AASM (Associated African States and Madagascar)***
Belgium, France, Italy, Netherlands, Luxembourg, Federal Republic of Germany	Burundi (formerly part of Ruanda-Urundi), United Republic of Cameroon, Central African Republic, Chad, Congo-Brazzaville (formerly French Congo), Congo-Léopoldville (formerly Belgian Congo), Dahomey, Gabon, Ivory Coast, Madagascar, Mali (formerly French Sudan), Mauritania (formerly French Sudan), Niger, Rwanda (formerly part of Ruanda-Urundi), Senegal, Somalia, Togo, Upper Volta
1969 Yaoundé II Convention	
EEC	***AASM***
Federal Republic of Germany, Belgium, France, Italy, Luxembourg, Netherlands	Burundi, United Republic of Cameroon, Central African Republic, Chad, People's Republic of Congo, Zaire, Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius (joined in 1972), Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta
1975 Lomé I Convention	
EEC	***ACP***
Federal Republic of Germany, Belgium, Denmark, France, Ireland, Italy, Luxembourg, Netherlands, United Kingdom	The AASM, plus: the Commonwealth countries: Bahamas, Barbados, Botswana, Fiji, Gambia, Ghana, Grenada, Guyana, Jamaica, Kenya, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Tanzania, Tonga, Trinidad and Tobago, Uganda, Western Samoa, Zambia
1980 Lomé II Convention	
EEC	***ACP***
Same Member States as above, plus Greece (joined the Convention after it was signed)	Same States as above, plus: Cape Verde, Comoros, Djibouti, Dominica, Kiribati, Papua New Guinea, St Lucia, Sao Tomé and Principe, Seychelles, Solomon Islands, Suriname, Tuvalu, Zimbabwe (joined in 1980 after the Convention was signed by the ACP countries)
1985 Lomé III Convention	
EEC	***ACP***
Same Member States as above, plus: Spain, Portugal (both joined after the Convention was signed)	Same States as above, plus: Angola (joined in 1985 after the Convention was signed), Antigua and Barbuda, Belize, Mozambique, St. Kitts and Nevis, St. Vincent and the Grenadines, Vanuatu
1990 Lomé IV Convention	
EEC	***ACP***
Same Member States as above	Same States as above, plus: Dominican Republic, Haiti, Namibia (joined after independence in April 1990)
2000 Cotonou Agreement	
EEC	***ACP***
Same Member States as above, plus: Estonia, Lithuania, Latvia, Poland, Czech Republic, Slovakia, Malta, Hungary, Slovenia (all joined after the Agreement was signed)	Same States as above, plus East Timor and the Republic of South Africa (although the latter does not participate in the IF)

Annex II

Successive EDF and EIB amounts

EDF	Entry into force	Name of Convention	EDF amount (ECU/EUR m)	Of which managed by the EIB Initial / Revised		Amount from EIB own resources (ECU/EUR m)
1st EDF	Jan 1958	Treaty of Rome	581			
2nd EDF	1964	Yaoundé I	660			
3rd EDF	1971	Yaoundé II	828	46	46	64
4th EDF	Apr 1976	Lomé I	3 000	95	95	390
5th EDF	Jan 1981	Lomé II	4 500	280	280	685
6th EDF	May 1986	Lomé III	7 400	600	545	1 000
7th EDF	Sept 1991	Lomé IV	10 800	825	825	1 200
8th EDF	Jun 1998	Lomé IV bis	12 900	1 000	1 300	1 658
9th EDF	Apr 2003	Cotonou	13 500	2 200	2 037	1 700

Notes:

1/ These amounts relate solely to ACP countries. In parallel, agreements similar to Lomé covered the OCTs. Thus, for Lomé IV, the amount of loans from the EIB's own resources was EUR 35m.

2/ Under Yaoundé, the amount of ECU 46m relates to special loans; the concept of risk capital dates from Lomé I.

3/ Under Lomé II, the Bank also had a maximum sum of ECU 200m available outside the Convention for mining projects.

4/ For Lomé IV bis, the Bank received a further EUR 300m of risk capital, from the unexpended balances of Lomé III (EUR 55m) or amounts initially planned as grants (EUR 245m), by agreement with the ACP countries.

5/ For Cotonou, the amount of EUR 2 200m for the Bank, mentioned at signature, included part of a 'conditional tranche' of EUR 1bn, subsequently allocated for other purposes; it was therefore subsequently reduced to EUR 2 037m.

Cotonou is the first of the agreements under which the amount from the Bank's own resources is lower than that from the EDF.

6/ Amounts from the EIB's own resources are maximum amounts, with the Bank being required to make its 'best efforts' to attain them, albeit without obligation. Risk capital amounts are legal obligations; to achieve them, decisions are not time-limited and may even occur after the period normally covered by the Convention. This provision of course changed with Cotonou and the creation of the Investment Facility.

	Mandates	Signatures	Cancelled post-signature	Commitments	as % of signatures	as % of mandates	Disbursements	as % of commitments
Risk capital								
Lomé IV	825	939	114	825	87.9	100.0	779	94.4
Individual loans		672	84	588			546	92.9
Global loans		267	30	237			232	97.9
Lomé IV bis	1000	973	92	881	90.5	88.1	774	87.9
Individual loans		580	42	538			464	86.2
Global loans		393	50	343			310	90.4
Lomé IV bis add res.	300	233		233	100.0	77.7	82	35.2
Individual loans		125		125			58	46.4
Global loans		108		108			24	22.2
Subtotal	2125	2145	206	1939	90.4	91.2	1635	84.3
Individual loans		1377	126	1251			1068	85.4
Global loans		768	80	688			566	82.3
Own resources								
Lomé IV	1200	1305	219	1086	83.2	90.5	1086	100.0
Individual loans		992	121	871			871	100.0
Global loans		313	98	215			215	100.0
Lomé IV bis	1658	1117	90	1027	91.9	61.9	723	70.4
Individual loans		869	47	822			611	74.3
Global loans		248	43	205			112	54.6
Subtotal	2858	2422	309	2113	87.2	73.9	1809	85.6
Individual loans		1861	168	1693			1482	87.5
Global loans		561	141	420			327	77.9
Total risk capital + own resources	4983	4567	515	4052	88.7	81.3	3444	85.0
Individual loans		3238	294	2944			2550	86.6
Global loans		1329	221	1108			893	80.6

Annex IV

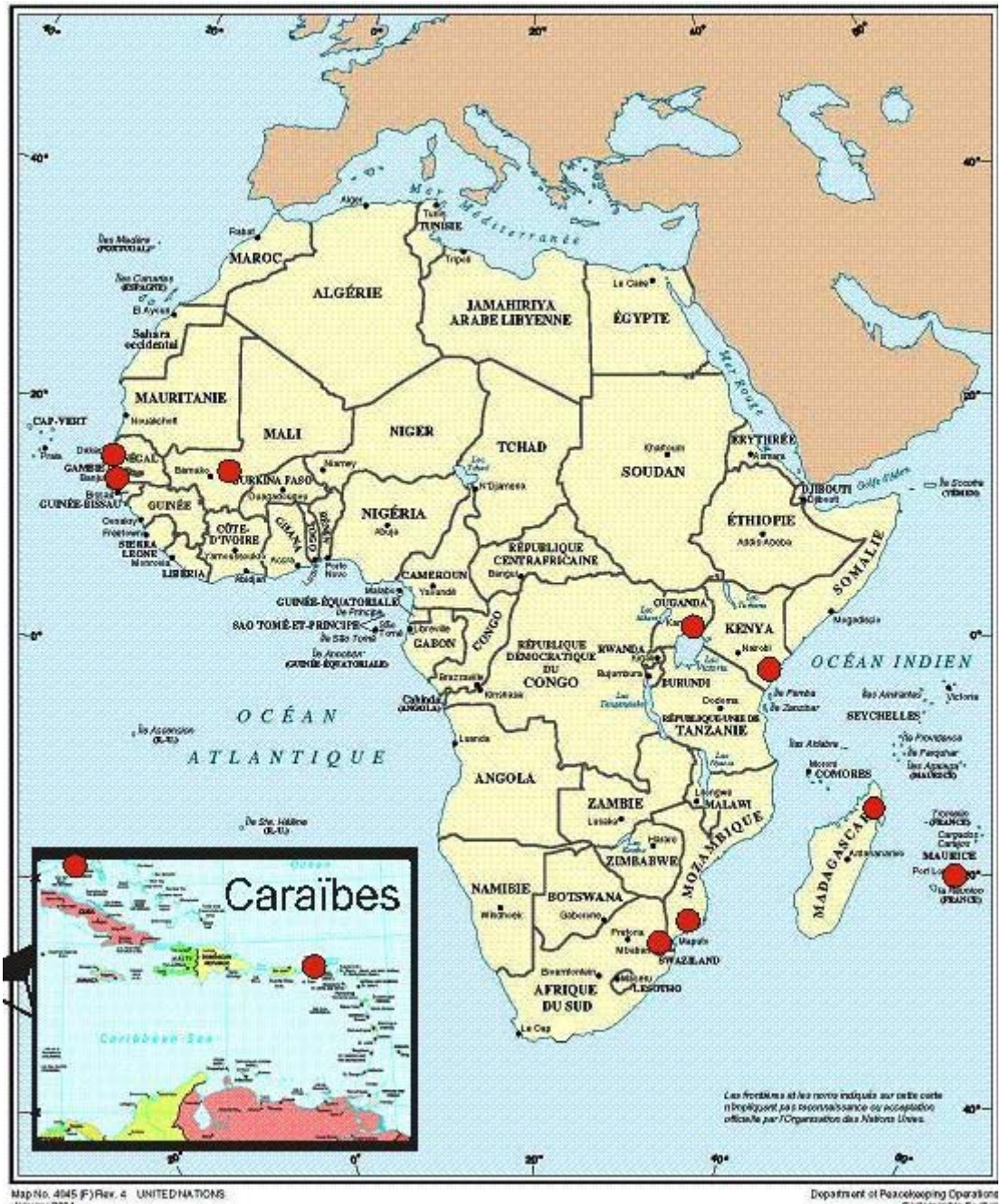
Documentation used

Only the main documents used are referred to here. Hyperlinks to external websites or GED are shown in the third column and may, of course, have been changed after this table was drawn up. An X in the last column indicates that a printed document (or version) is available.

Lomé III Conventions	Dec. 1984	http://www.acpsec.org/en/conventions/lome3e.htm	
Lomé IV Conventions	Dec 1989	http://www.acpsec.org/en/conventions/lomeiv_e.htm	X
Lomé IV Conventions revised in Mauritius	Nov 1995	http://www.acpsec.org/en/conventions/lome4_bis_e.htm (this version, in English, is complete but contains errors)	
Ditto + internal agreement	Ditto & 20 Dec 1995	http://www.legilux.public.lu/leg/a/archives/1997/0931212/0931212.pdf#page=38 (changes made during the revision, in French)	
Cotonou Agreement	23 June 2000	http://www.acpsec.org/en/conventions/cotonou/accord1.htm	
Lomé IV Financial Regulation	16 June 1988	http://www.adminet.com/eur/loi/leg_euro/fr_398Q0430.html	
Lomé IV and IV bis Article 33 reports: utilisation as at 31 December 2003	?? 2004	http://llged.lux.eib.org/livelink/livelink?func=doc.ViewDoc&nodeId=7464384 http://llged.lux.eib.org/livelink/livelink?func=doc.ViewDoc&nodeId=8956131	X X
Programming documents	1990 and 1995	For each ACP country, an IP economic analysis note and Bank annex for Lomé IV and Lomé IV bis (280 documents)	X
Equity participations	6 Nov 2003	http://llged.lux.eib.org/livelink/livelink?func=doc.ViewDoc&nodeId=7065348	
PA conditionality	18 May 2000	Note to CD PA/CC/2000-626/GB and attached note to the Board	X
6th, 7th and 8th EDF activity reports	Nov 2001 2002 2003	http://www.eca.eu.int/audit_reports/annual_reports/docs/2001/ra01_2fr.pdf etsq.	X

Commission report on management of external aid programmes	Feb 2001	http://www.adminet.com/eur/loi/leg_euro/fr_301Y0222_01.html	X
Special report 24/98 on risk capital	14 Dec 1998	http://www.adminet.com/eur/loi/leg_euro/fr_398Y1214_02.html	
Investment Facility: 2004 report	24 Feb 2005	http://llged.lux.eib.org/livelink/livelink?func=doc.ViewDoc&nodeId=10316692	X
EIB and Cotonou	May 2003	EU-ACP Courier article	X

Annex 2 – Location Map



Annex 3 – Evaluation Process and Criteria

Project performance is assessed using the core evaluation criteria as defined by the Evaluation Cooperation Group (ECG), which brings together the operations evaluation units of the multilateral development banks (World Bank group, regional development banks, and EIB), in line with the work of the OECD- DAC Working Party on Aid Evaluation, and adapted to meet the particular operating needs of the EIB. Evaluations take due account of the analytical criteria used in the ex-ante project appraisal and the strategy, policies and procedures that relate to the operations evaluated. Changes in EIB policies or procedures following project appraisal, which are relevant to the assessment of the project, will also be taken into account.

1. RELEVANCE TO EU, EIB AND COUNTRIES POLICIES
(First Pillar of value added sheet for individual operations)

Relevance is the extent to which the objectives of a project are consistent with EU policies, as defined by the Treaty, Directives, Council Decisions, Mandates, etc.., the decisions of the EIB Governors, as well as the beneficiaries' requirements, country needs, global priorities and partners' policies. In the EU, reference is made to the relevant EU and EIB policies and specifically to the Article 267 of the Treaty that defines the mission of the Bank. Outside the Union, the main references are the policy objectives considered in the relevant mandates.

2. PROJECT PERFORMANCE
(Second Pillar of value added sheet for individual operations)

- **Effectiveness** (or efficacy) relates to the extent to which the objectives of the project have been achieved, or are expected to be achieved, taking into account their relative importance, while recognising any change introduced in the project since loan approval.

- **Efficiency** concerns the extent to which project benefits/outputs are commensurate with resources/inputs. At ex-ante appraisal, project' efficiency is normally measured through the economic and financial rates of return. In public sector projects a financial rate of return is often not calculated ex-ante, in which case the efficiency of the project is estimated by a cost effectiveness analysis.

- **Sustainability** is the likelihood of continued long-term benefits and the resilience to risk over the intended life of the project. The assessment of project sustainability varies substantially from case to case depending on circumstances, and takes into account the issues identified in the ex-ante due-diligence carried out by the Bank.

3. EIB CONTRIBUTION

- **EIB Financial value added (Third Pillar of value added sheet for individual operations)** identifies the financial value added provided in relation to the alternatives available, including improvements on financial aspects as facilitating co-financing from other sources (catalytic effect).
- **Other EIB contribution (optional)** relates to any significant non-financial contribution to the operation provided by the EIB; it may take the form of improvements of the technical, economic or other aspects of the project.

4. EIB MANAGEMENT OF THE PROJECT CYCLE

EIB Management of the project cycle rates the Bank's handling of the operation, from project identification and selection to post completion monitoring

EUROPEAN INVESTMENT BANK
OPERATIONS EVALUATION (EV)

In 1995, Operations Evaluation (EV) was established with the aim of undertaking ex-post evaluations both inside and outside the Union.

Within EV, evaluation is carried out according to established international practice, and takes account of the generally accepted criteria of relevance, efficacy, efficiency and sustainability. EV makes recommendations based on its findings from ex-post evaluation. The lessons learned should improve operational performance, accountability and transparency.

Each evaluation involves an in-depth evaluation of selected investments, the findings of which are then summarized in a synthesis report.

The following thematic ex-post evaluations are published on the EIB Website :

1. Performance of a Sample of Nine Sewage Treatment Plants in European Union Member Countries (1996 - available in English, French and German)
2. Evaluation of 10 Operations in the Telecommunications Sector in EU Member States (1998 - available in English, French and German)
3. Contribution of Large Rail and Road Infrastructure to Regional Development (1998 - available in English, French and German)
4. Evaluation of Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development (1998 - available in English, French and German)
5. An Evaluation Study of 17 Water Projects located around the Mediterranean (1999 - available in English, French, German, Italian and Spanish).
6. The impact of EIB Borrowing Operations on the Integration of New Capital Markets. (1999 – available in English, French and German).
7. EIB Contribution to Regional Development A synthesis report on the regional development impact of EIB funding on 17 projects in Portugal and Italy (2001 – available in English (original version), French, German, Italian and Portuguese (translations from the original version)).
8. Evaluation of the risk capital operations carried out by the EIB in four ACP countries 1989-1999 (2001 - available in English (original version), French and German (translations from the original version)).
9. EIB financing of energy projects in the European Union and Central and Eastern Europe (2001- available in English (original version), French and German (translations from the original version))
10. Review of the Current Portfolio Approach for SME Global Loans (2002 – available in English (original version), French and German (translations from the original version)).
11. EIB Financing of Solid Waste Management Projects (2002 – available in English (original version), French and German (translations from the original version)).
12. Evaluation of the impact of EIB financing on Regional Development in Greece (2003 – available in English (original version) and French (translation from the original version)).

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13. Evaluation of Transport Projects in Central and Eastern Europe (2003 – available in English (original version).
14. EIB Financing of Urban Development Projects in the EU (2003 – available in English (original version), French and German (translations from the original version)).
15. Evaluation of the Projects Financed by the EIB under the Asia and Latin America Mandates (2004 – available in English (original version), French, German and Spanish).
16. Evaluation of EIB Financing of Airlines (2004 – available in English (original version) French and German)
17. Evaluation of EIB Financing of Air Infrastructure (2005 - available in English (original version))
18. EIB financing with own resources through global loans under Mediterranean mandates (2005 - available in English (original version) German and French.)
19. Evaluation of EIB Financing of Railway Projects in the European Union (2005 - available in English (original version) and French.)
20. Evaluation of PPP projects financed by the EIB (2005 - available in English (original version).
21. Evaluation of SME Global Loans in the Enlarged Union (2005 - available in English (original version) and German.)
22. EIB financing with own resources through individual loans under Mediterranean mandates (2005 - available in English (original version) and German.)
23. Evaluation of EIB financing through individual loans under the Lomé IV Convention (2006 - available in English (original version) and French.)
24. Evaluation of EIB financing through global loans under the Lomé IV Convention (2006 - available in English.)

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